bdc

financing.
advising.
smarts.

2016 Annual Report

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The only bank devoted exclusively to entrepreneurs.

Proudly showcasing a refreshed identity and new colours.

BDC's new look is aimed at increasing our presence and impact among business owners across Canada. The two colours of our evocative maple leaf symbol signal the close relationship between BDC and Canadian entrepreneurs.

Message from the Chair of the Board of Directors

I am pleased to present BDC's annual financial report for fiscal 2016.

BDC is a stable, profitable organization, effectively fulfilling its mandate to support Canadian entrepreneurs in building strong and competitive businesses.

In fiscal 2016, BDC got more pan-Canadian than ever before. Through 112 business centres across the country and online at bdc.ca, BDC is now directly or indirectly supporting more than 42,000 entrepreneurs—a record number—in every part of Canada and every sector of the economy.

Last year, we also welcomed Michael Denham as BDC's new president and CEO. We are confident that Michael is the right person to lead BDC in achieving its vision of making Canadian entrepreneurs the most competitive in the world.

Effective and impactful support for Canadian entrepreneurs

I am happy to report that BDC has made some important contributions to the government's priorities.

BDC deployed $5.1 billion in financing and made 14,600 transactions to help business owners create and grow their firms, develop and expand their markets, invest in information technology and other intangible assets, buy equipment to increase productivity, and transfer their companies to a new generation of owners.

As part of our commitment to support women entrepreneurs, in the last fiscal year we authorized $247.4 million in loans to majority women-owned businesses. This represents over a third of BDC's $700 million commitment over three years to better support these entrepreneurs.

We are also pleased with the work BDC has done to support innovation as a catalyst for the success of small and medium-sized businesses, notably by managing and operationalizing the Venture Capital Action Plan (VCAP), designed to help create a vibrant venture capital ecosystem in Canada.

In fiscal 2016, BDC also created BDC Advantage, a new business unit that brings together all of the Bank's non-financial services to help companies scale up and expand internationally. One of its initiatives is to ensure that high-impact firms—companies that have the potential to make a disproportionate impact on the economy—have access to the financing and advice they need to reach their full potential.

Robust stewardship and strong leadership

During the last fiscal year, the board's main focus was to provide insight on risk governance, strategy, and the process to recruit a new president and CEO.

BDC underwent a review of risk management and governance practices by the Office of the Superintendent of Financial Institutions (OSFI). Results from the review will be used to strengthen and enhance BDC's management of risk over the medium term. As one of the first elements implemented, we completed a thorough review of BDC's risk governance framework to align BDC's risk governance model with best market practices. This started with an enhancement of the board mandate and the committees' terms of reference.

The board also oversaw the implementation of such strategic initiatives as developing advisory services for high-impact firms under BDC Advantage.

I would like to thank my board colleagues for their guidance, robust stewardship and strong leadership.

Together, our directors have the mix of skills and experience needed for their stewardship role. Their diverse range of perspectives helps us respond to our clients' goals and aspirations.

This year, we welcomed Nancy M. Laird as a new board member. Many thanks to Sue Fawcett, who completed two terms of dedicated service.

We were all incredibly saddened by Edward (Ted) Gordon's recent passing. Ted was a wonderful man and colleague, and a great asset to BDC's board. He will be greatly missed by all of us.

Connection to the day-to-day reality of business owners

After two years as Chairman of the Board, I am very proud of the contribution BDC is making to the success of Canadian entrepreneurs.

The new strategic direction we've set with the management team is bearing fruit. By introducing a new brand identity, BDC will become more visible and will improve its ability to connect with business owners.

With our renewed focus on non-financial services and our revitalized BDC Capital investment arm, we have become more impactful and more relevant.

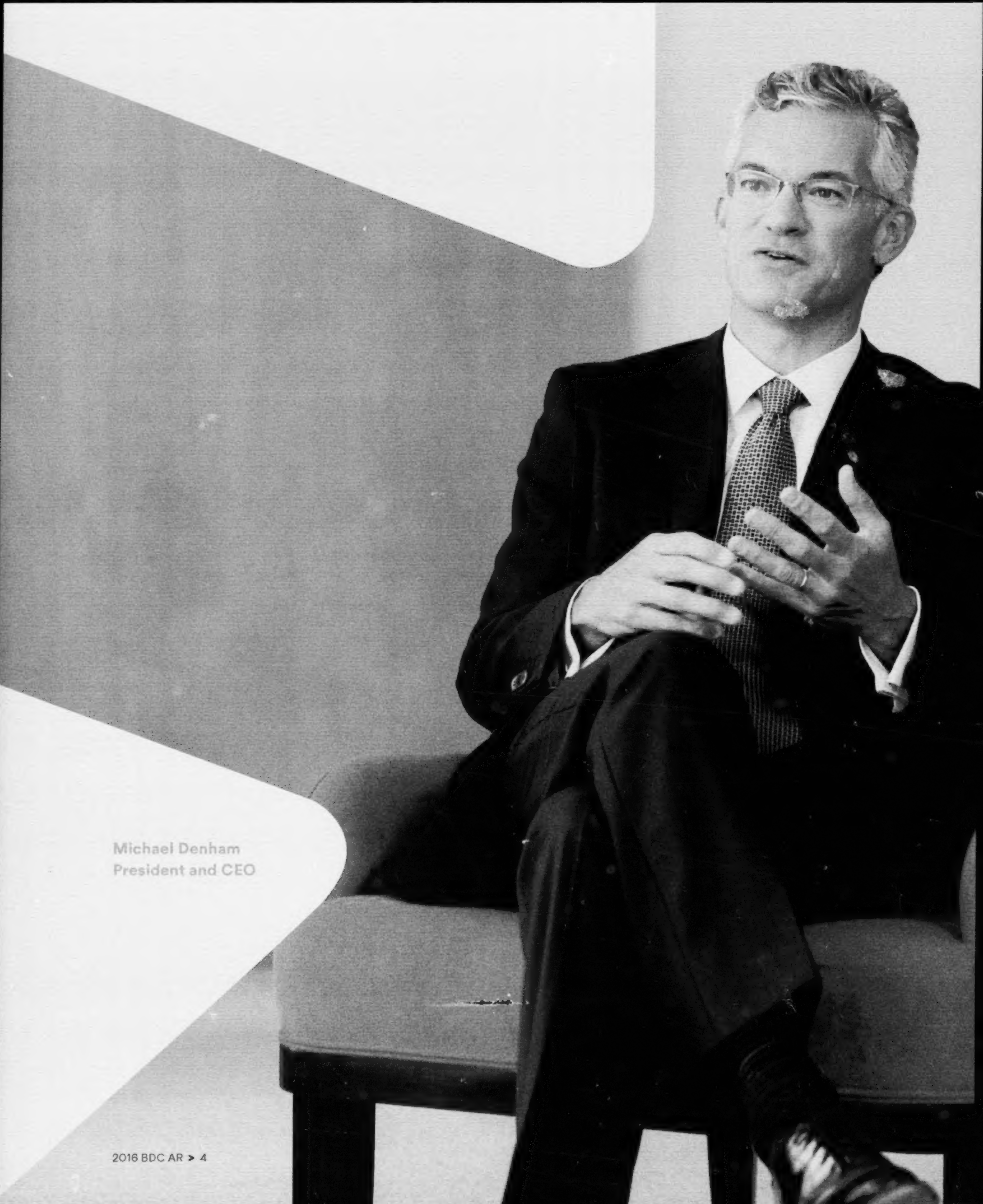
A leadership role in the entrepreneurship ecosystem

I would like to thank BDC's 2,100 employees for their hard work and outstanding dedication to the success of business owners in this country. And I offer special thanks to the 42,000 entrepreneurs who have put their trust in BDC.

Looking ahead, I am confident that BDC is uniquely positioned to play a leadership role in helping Canadian businesses be more innovative and productive, scale up, export and grow internationally, and sustain Canada's future prosperity.

Sincerely,

Samuel L. Duboc



Michael Denham
President and CEO

Message from the President and CEO

BDC is a different kind of bank. We support more than 42,000 entrepreneurs as they take their ideas and ambitions further.

It was an honour to be appointed BDC's president and CEO in August 2015. I am proud to be part of an organization that has such a clear and important purpose: to help Canadian businesses become stronger and more profitable, so they can compete here and around the world.

Standing behind more entrepreneurs

It is great to see that BDC's unique combination of loans, investments and advisory services is making a tangible difference to the growth of small and medium-sized businesses across Canada. We currently have $26 billion committed directly and indirectly to more than 42,000 entrepreneurs, supporting them as they take their ideas and ambitions further.

Getting closer to where entrepreneurs are

Throughout fiscal 2016, we worked to modernize our brand identity so that we can be more relevant to business owners and better communicate our unique and proactive role in supporting Canada's small and medium-sized businesses. Our new brand reflects our determination to provide guidance to entrepreneurs, to support more of them and to be a reliable partner in their growth journey.

Last year, we opened 12 new BDC business centres, bringing the total to 112 and rebalancing our portfolio across the country.

We want to be closer to where entrepreneurs are and to provide them with the services they need, when they need them. This is an essential part of our commitment to making it as easy as possible for business owners to work with us.

Supporting businesses affected by lower oil prices

As a development bank, when the going gets tough, our job is to step in and see how we can help. That's why we launched a national oil and gas sector initiative to support businesses affected by lower oil prices. This initiative included a $500 million envelope and a sector relief program. The initiative has been yielding impressive results, as more entrepreneurs are getting their projects financed.

We are optimistic that with continued investment and appropriate diversification strategies, small and medium-sized businesses in this sector will emerge from the current slowdown stronger than ever.

Fuelling innovation and productivity

Innovation and productivity are critical to improving competitiveness. We provide essential financing and advice to encourage entrepreneurs to think about their businesses in new ways, invest in technology, purchase machinery and equipment, and develop new products and services.

On the venture capital front, BDC has continued to play a central role in fostering a stronger and more vibrant innovation ecosystem, with a particular focus on clean tech, health care and information technology. To support innovative start-ups and help them commercialize their ideas, we continue to partner with top accelerators, tech clusters and private funds across the country.

Providing non-financial services to meet the unique needs of entrepreneurs

Last year, we created a new line of business called BDC Advantage and moved our existing advisory business under its umbrella. Our consultants continue to provide affordable advisory services to help entrepreneurs address challenges such as operational efficiency, international growth and business management.

To complement this, we also created a team of highly experienced individuals within BDC Advantage. It focuses on supporting high-impact firms—companies that have the potential to make a disproportionate impact on Canada's economic growth and competitiveness.

Offering tailored products and services

Last year, BDC continued to provide tailored products and services to businesses that may benefit from additional support, such as small businesses, women-owned businesses, and firms run by social entrepreneurs, Aboriginal entrepreneurs, young entrepreneurs and immigrant entrepreneurs.

We started assessing how we can leverage the emergence of fintech to the benefit of small and medium-sized businesses.

We also continued to work closely with partners in the entrepreneurship ecosystem, to provide more capital and more relevant advice to Canada's business owners.

Strong financial performance

We continued to do this while achieving strong financial performance. Specifically, BDC reported a consolidated net income of $537.7 million, generated mostly by Financing. Our strong Growth & Transition Capital and Venture Capital performance also contributed to these excellent results. However, uncertainty around oil prices resulted in a higher provision for credit losses.

This year's results will permit a $68.6 million dividend payment to our sole shareholder, the Government of Canada.

Fielding a strong team dedicated to entrepreneurs

BDC has been named one of Canada's Top 100 Employers for 2016, the 10th consecutive year BDC has won this prestigious distinction. While many things contribute to making us a top employer, the number one reason is our people.

Since I joined BDC, I have met with hundreds of entrepreneurs from across the country and have heard story after story about the difference BDC is making.

I would like to thank all of our 2,100 employees, who wake up every morning to help business owners create value for their businesses and their communities. You all do a wonderful job.

Being a different kind of bank

BDC is a great place to work and a great organization to do business with. My job is to build on the great momentum I inherited—and accelerate it so that we maximize our impact on entrepreneurs, and make it easier and faster for them to do business with us. The more quickly we can move and help our clients, the more quickly they can take their businesses to the next level of success.

BDC is a different kind of bank. We are the only bank devoted exclusively to entrepreneurs. And we are uniquely positioned to be a leader in making Canadian entrepreneurs the most competitive in the world.

Sincerely,

Michael Denham

Management's Discussion and Analysis

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1

Economic Environment

World economic growth slowed in 2015*, reaching 3.1%, compared with 3.4% the year before. This deceleration is mainly attributable to a slowdown in emerging economies.

In the U.S., growth remained strong, at 2.4%, the same as in 2014. Employment continued its ascent, with a net gain of 2.7 million jobs. The unemployment rate continued to drop, ending the year at 5.0%. The strong performance of the labour market, coupled with favourable lending conditions, stimulated consumer spending and boosted activities in the real estate sector. In response to the appreciation of the U.S. dollar, net exports decreased, limiting further growth.

GDP growth rose from 0.9% in 2014 to 1.5% in 2015 in the Eurozone. Japan's economy grew modestly in 2015.

The growth of China's economy decelerated from 7.3% in 2014 to 6.9% in 2015. Growth remained strong in India, but several emerging Asian economies suffered from the slowing of China's activity. The slump in crude oil prices and several mineral prices hindered growth in countries more dependent on natural resources. Notably, Russia and Brazil experienced a severe recession in 2015.

Canada's economy was negatively affected by plummeting crude oil prices. In 2015, real GDP growth was a mere 1.2%, compared with 2.5% the previous year. Economic activity fell in the oil-producing provinces but continued to grow in all other provinces. As a result of lower oil prices and diverging monetary policies in Canada and the U.S., the Canadian dollar lost 16% of its value against the U.S. dollar in 2015. This currency depreciation stimulated exports, mainly from provinces whose economies are more concentrated in the manufacturing sector.

Non-residential business investment fell substantially in 2015. The drop in crude oil prices led to a cancellation or postponement of several large oil projects, such that investment collapsed in this industry and related sectors. Investment growth remained weak in all other industries despite extremely favourable credit conditions.

Despite this economic slowdown, employment recorded a net gain of 155,400 jobs, mostly concentrated in full-time work. The strong performance of the labour market, combined with historically low lending rates, led Canadian households to increase their spending by 1.9%. Residential construction investment, which benefitted from low mortgage rates, grew by 3.9%.

In short, the Canadian economy was hit hard by falling crude oil prices in 2015. Investment collapsed in the oil and related sectors and, despite the easing of credit conditions for businesses not tied to oil and gas, growth in investment remained weak in the other sectors. However, the news last year was not all bad. The depreciation of the Canadian dollar and the strength of the U.S. economy stimulated exports. And the resilience of the labour market, as well as historically low interest rates, supported consumer spending and residential construction investment.

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* Calendar year

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Performance Measures Results

In our Corporate Plan, we present performance measures with which we measure our organizational effectiveness and efficiency. We track and present our performance against these objectives.

Entrepreneurship

Performance measure	Target fiscal 2016	Result fiscal 2016	Comments
→ Number of loans of $500,000 or less from Financing and Growth & Transition Capital, based on commitment size of less than $750,000	8,200	**10,658**	BDC understands the unique situation of small businesses and strives to meet their financing needs.
→ Number of authorizations to new businesses (two years in business or less) (Financing and Growth & Transition Capital)	2,000	**2,020**	BDC recognizes that new businesses are part of a healthy ecosystem and supports them.
→ Percentage of BDC-financed start-ups that survive at least five years	65%	**60%**	Start-ups face many challenges. Half of new Canadian firms are no longer in business after five years. BDC knows start-ups can be tomorrow's champions and helps them succeed.
→ Percentage of very satisfied clients (gave a score of 9 or 10 out of 10 for overall satisfaction with BDC's services)	57%	**65%**	BDC's continued focus on the client experience ensures that entrepreneurs receive efficient, professional and tailored support.
→ Number of transactions authorized with and from partners (syndications, pari passu, loan referrals and alliances)	2,500	**3,072**	To help more entrepreneurs succeed, BDC leverages its strong relationships with private sector institutions and other partners.

Productivity

Performance measure	Target fiscal 2016	Result fiscal 2016	Comments
→ Number of BDC loans that entrepreneurs use to purchase equipment for their businesses (Equipment Line and loans with "equipment purchase" as purpose)	1,750	**1,981**	BDC continues to raise entrepreneurs' awareness of the ways new machinery and equipment can improve productivity.

Growth

Performance measure	Target fiscal 2016	Result fiscal 2016	Comments
→ Percentage of high-growth firms in our Growth & Transition Capital portfolio (high-growth firms are defined as those having annual sales growth greater than 20% per year over a three-year period)	30%	**34%**	High-growth firms are vital to a healthy economy and BDC continues to support them.

Innovation

Performance measure	Target fiscal 2016	Result fiscal 2016	Comments
→ **Support for Digital Canada 150**			
Financing: Success in meeting objective of $200 million in acceptances annually until 2017	$200 million	**$313 million**	BDC's strategy to help entrepreneurs adopt and create information and communications technology (ICT) is working well and responds to businesses' needs.
Venture Capital: Success in meeting objective of $300 million in authorizations by 2017	60%	**101%**	BDC gave itself three years to authorize $300 million in venture capital to firms that create ICT. We achieved this target in two years.
→ Venture Capital return of capital (RoC)(1)	1.01	**1.08**	Through its positive returns on investments and initiatives in the venture capital market, BDC is demonstrating to private investors that such operations can be profitable.

Efficiency

Performance measure	Target fiscal 2016	Result fiscal 2016	Comments
→ Financing efficiency ratio(2)	38.7%	**38.3%**	BDC is continuously looking for ways to make its operations more efficient and strives to incur fewer expenses for each dollar of revenue earned.

(1) Return on each dollar disbursed (includes both direct and funds investments).

(2) A decrease represents improved productivity. For the definition of efficiency ratio, refer to the Glossary on page 130.

BDC strives to measure its impact on Canadian entrepreneurs. As a result, its performance measures continue to evolve to properly capture public policy impacts.

3

Analysis of Financial Results

Lines of Business

BDC reports on six business lines: Financing, Growth & Transition Capital, Venture Capital, BDC Advantage, Securitization and Venture Capital Action Plan (VCAP).

Activities

BDC plays an important role in helping Canadian small and medium-sized enterprises (SMEs) to become more competitive, innovate, increase their efficiency and explore new markets, at home and abroad. As a complementary long-term lender and investor that takes higher risks and offers greater flexibility, BDC works to ensure that SMEs have the opportunity to grow and succeed.

Financing plays a key role in facilitating access to funding for entrepreneurs and supporting the competitiveness of SMEs. Clients of Financing accepted a total of $4.8 billion in loans during the year, compared to $4.7 billion last year. Growth & Transition Capital continued to support the growth plans of Canadian entrepreneurs through its diverse product offering, with clients accepting a total of $259.1 million in financing this year, compared to $231.5 million last year. To support innovative Canadian companies and create the conditions for success in the venture capital ecosystem, Venture Capital authorized investments totalling $253.1 million, compared to $185.4 million last year. BDC continued the deployment of the Venture Capital Action Plan and has authorized $390.5 million in investments since the plan's inception. In the first quarter of fiscal 2016, BDC created a new unit called BDC Advantage and took the first steps toward setting up a team of experienced advisors dedicated to supporting high-impact firms. BDC's existing consulting services were moved into the new unit. BDC Advantage revenues totalled $16.7 million for the year, slightly lower than the $17.0 million recorded last year. Revenues generated by BDC Advantage are not always sufficient to cover associated costs, but management considers these activities as an investment in the competitiveness of Canadian entrepreneurs and SMEs. BDC also remains active in the securitization market, where SMEs access financing for the vehicles and equipment they need to improve productivity. As at March 31, 2016, total asset-backed securities (ABS) authorizations and renewals amounted to $575 million.

BDC continued to focus on small loans, while also meeting the need for larger loans, notably for medium-sized businesses, and participating in financial transactions with other financial institutions. During fiscal 2016, Financing and Growth & Transition Capital made 10,658 loans of $500,000 or less for a total of $994.9 million, compared to 8,781 loans and $879.5 million last year.

Financial Results Overview

For the analysis of financial results, please also refer to Note 25—*Segmented Information* to the Consolidated Financial Statements.

Consolidated net income

BDC reported consolidated net income of $537.7 million this year. Net income attributable to BDC's shareholder amounted to $535.4 million this year, while that attributable to non-controlling interests amounted to $2.3 million. Non-controlling interests relate only to Growth & Transition Capital and Venture Capital operations.

Consolidated net income was generated mostly by Financing. Venture Capital and Growth & Transition Capital also contributed to the strong results with net income of $67.4 million and $53.7 million, respectively.

Net income from Financing was $441.8 million, a decrease of $11.6 million from last year. The decrease in profitability was mainly due to a higher provision for credit losses as a result of uncertainty around oil prices, and higher operating and administrative expenses to support portfolio growth, partially offset by higher net interest income compared to fiscal 2015.

Net income from Growth & Transition Capital was $53.7 million, $15.2 million higher than last year. The increase was mainly due to higher net revenue on investments, partially offset by a lower net change in unrealized appreciation of investments.

Venture Capital recorded $67.4 million in net income for the year, compared to $23.3 million in net income recorded last year, its best results in over a decade. The increase in net income this year was mostly attributable to a higher net change in unrealized appreciation of investments.

Consolidated net income—by business segment
for the years ended March 31 ($ in millions)

	2016	2015	2014	2013	2012
Financing	**441.8**	453.4	433.8	433.1	504.7
Growth & Transition Capital	**53.7**	38.5	23.3	34.7	36.2
Venture Capital	**67.4**	23.3	(12.0)	(8.6)	(42.7)
BDC Advantage	**(31.6)**	(24.2)	(16.9)	(12.4)	(11.0)
Securitization	**3.1**	4.0	5.8	11.4	46.2
Venture Capital Action Plan	**3.3**	(4.3)	(1.4)	–	–
Net income	**537.7**	490.7	432.6	458.2	533.4
Net income attributable to:					
BDC's shareholder	**535.4**	490.5	426.0	454.7	520.3
Non-controlling interests	**2.3**	0.2	6.6	3.5	13.1
Net income	**537.7**	490.7	432.6	458.2	533.4

BDC Advantage reported a net loss of $31.6 million, compared to a net loss of $24.2 million last year. Most of what BDC Advantage does is considered an investment in fostering Canadian firms' competitiveness.

Net income from Securitization was $3.1 million, $0.9 million lower than last year, due to lower net interest and fee income as a main result of a decrease in yields.

Venture Capital Action Plan recorded a net income of $3.3 million, compared to a net loss of $4.3 million last year, mainly due to a higher net change in unrealized appreciation of investments.

Net income attributable to non-controlling interests was $2.3 million in fiscal 2016 ($4.5 million in net income from Growth & Transition Capital and $2.2 million in net loss from Venture Capital), and $0.2 million in fiscal 2015 ($2.2 million in net income from Growth & Transition Capital and $2.0 million in net loss from Venture Capital).

Consolidated comprehensive income for fiscal 2016 was $494.1 million, compared to $460.4 million last year. Fiscal 2016 consolidated comprehensive income comprised $537.7 million in consolidated net income and a $43.6 million loss in other comprehensive income (OCI). The decrease in OCI for the year was mostly due to the remeasurement loss on the net defined benefit asset or liability of $39.5 million, compared to a loss of $32.7 million in fiscal 2015. For the most part, this loss was caused by lower returns on pension plan assets, partially offset by higher discount rates used to value the net defined benefit liability. For further details, refer to Note 19—*Net Defined Benefit Asset or Liability* to the Consolidated Financial Statements.

Consolidated comprehensive income
for the years ended March 31 ($ in millions)

	2016	2015	2014	2013	2012
Net income	537.7	490.7	432.6	458.2	533.4
Other comprehensive income (loss)					
Items that may be reclassified subsequently to net income					
Net change in unrealized gains (losses) on available-for-sale assets	(3.0)	1.7	0.3	(4.4)	(19.8)
Net change in unrealized gains (losses) on cash flow hedges	(1.1)	0.7	(3.4)	(2.2)	10.4
Total items that may be reclassified subsequently to net income	(4.1)	2.4	(3.1)	(6.6)	(9.4)
Items that will not be reclassified to net income					
Remeasurements of net defined benefit asset or liability	(39.5)	(32.7)	52.7	(18.3)	(143.1)
Other comprehensive income (loss)	(43.6)	(30.3)	49.6	(24.9)	(152.5)
Total comprehensive income	494.1	460.4	482.2	433.3	380.9
Total comprehensive income attributable to:					
BDC's shareholder	491.8	460.2	475.6	429.8	367.8
Non-controlling interests	2.3	0.2	6.6	3.5	13.1
Total comprehensive income	494.1	460.4	482.2	433.3	380.9

Performance Against Objectives

The consolidated net income of $537.7 million was $114.9 million more than the corporate plan objective. Most of the variance is attributable to Venture Capital, which recorded a net income of $67.4 million, $81.4 million higher than the corporate plan objective, mainly because of a higher-than-anticipated net change in unrealized appreciation of investments.

Growth & Transition Capital's strong net income of $53.7 million also contributed to the variance and was $19.5 million higher than the corporate plan objective, mainly due to higher-than-anticipated net realized gains on investments. Venture Capital Action Plan's net income of $3.3 million was $24.3 million higher than expected, mostly due to the higher-than-anticipated net change in unrealized appreciation of investments. BDC Advantage's net loss of $31.6 million was $5.7 million lower than expected, mainly as a result of lower-than-anticipated operating and administrative expenses. Securitization's net income of $3.1 million was $0.3 million higher than expected, mostly due to higher fee income. On the other hand, Financing's net income of $441.8 million was slightly lower than the corporate plan objective by $16.2 million, primarily due to the higher-than-anticipated provision for credit losses.

Financing

Financing offers entrepreneurs secured and unsecured term loans and specialized services tailored to support them as they create and grow their firms; develop and expand their markets; invest in intangible assets, such as information technology; buy equipment to increase productivity; (or transfer their companies to a new generation of owners). BDC finances creditworthy projects that are, on average, riskier that the ones the private sector typically accepts. During an economic downturn, BDC stands ready to increase its response, if required.

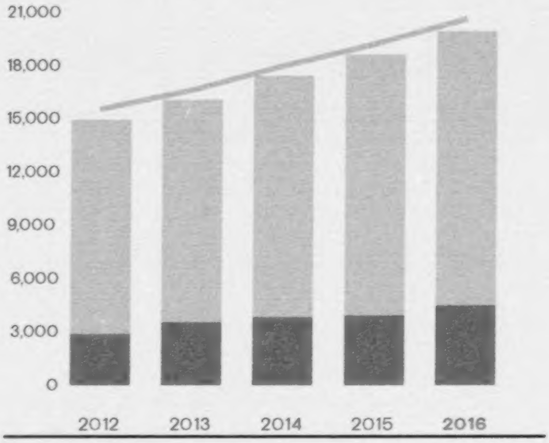
Financing also plays an important role in facilitating access to funding for entrepreneurs and supporting the competitiveness of SMEs. To that end, during fiscal 2016, BDC signed an agreement to provide the Laurentian Bank of Canada with a guarantee on a portfolio of commercial equipment financing of up to $300 million that will focus mainly on the manufacturing, oil and gas, and forestry sectors.

In addition, BDC entered into a partnership agreement with Futurpreneur Canada (FC) and the Royal Bank of Canada (RBC), allowing FC to provide more loans to aspiring young entrepreneurs. The partnership involves RBC extending a $20 million line of credit 100% guaranteed by BDC so FC can borrow a portion of the loan capital it provides to young entrepreneurs. Through these two programs, BDC continued to indirectly increase its reach and provide SMEs with more access to capital.

Financing portfolio

Financing's loan portfolio, before allowance for credit losses, rose by 7.4% from $18.9 billion a year ago to $20.3 billion as at March 31, 2016, an increase of $1.4 billion. The closing portfolio comprised $19.7 billion in performing loans and $0.6 billion in impaired loans. As at March 31, 2016, 77.7% of the performing portfolio was composed of floating-rate loans, slightly lower than the fiscal 2015 level of 79.1%.

Financing performing portfolio
as at March 31 ($ in millions)



	2012	2013	2014	2015	2016
■ Fixed-rate performing portfolio	2,843	3,482	3,760	3,852	4,416
▨ Floating-rate performing portfolio	11,955	12,436	13,513	14,601	15,353
■▨ Total performing portfolio	14,798	15,918	17,273	18,453	19,769
— Total Financing portfolio	15,349	16,410	17,749	18,944	20,323

Net interest and fee and other income

Net interest and fee and other income reflects interest income and fees less interest expense on borrowings. Net interest and fee income reached $969.9 million in fiscal 2016, compared to $900.0 million in fiscal 2015. The increase of $69.9 million was mainly the result of continued growth in the portfolio. The net interest and fee income margin, the ratio of net interest and fee income over the average loan portfolio, remained at the same level as last year.

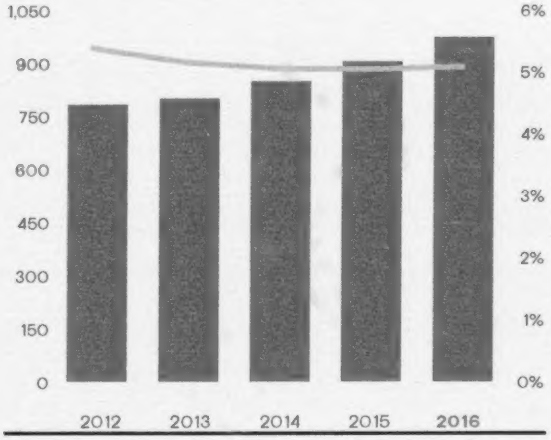
Financing results
for the years ended March 31 ($ in millions)

	2016	2015
Net interest and fee and other income	969.9	900.0
Provision for credit losses	(160.9)	(95.9)
Net gains (losses) on other financial instruments	4.3	(3.3)
Income before operating and administrative expenses	813.3	800.8
Operating and administrative expenses	371.5	347.4
Net income from Financing	441.8	453.4

Financing results
for the years ended March 31 (as % of average portfolio)

	2016	2015
Net interest and fee and other income	4.9%	4.9%
Provision for credit losses	(0.8%)	(0.5%)
Net gains (losses) on other financial instruments	0.0%	0.0%
Income before operating and administrative expenses	4.1%	4.4%
Operating and administrative expenses	1.9%	1.8%
Net income from Financing	2.2%	2.6%

Financing net interest and fee and other income
for the years ended March 31 ($ in millions)



	2012	2013	2014	2015	2016
■ Net interest and fee and other income	779.5	796.7	845.2	900.0	969.9
▬ As a % of average loan portfolio	5.23%	5.01%	4.91%	4.90%	4.94%

Provision for credit losses

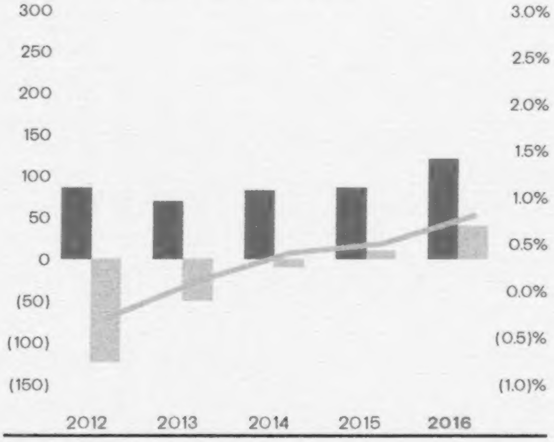
The provision for credit losses is the amount charged to income to bring the total allowance for credit losses, including individual and collective allowances, to a level that represents management's best estimate of losses incurred in the loan portfolio at the statement of financial position date. In fiscal 2016, Financing recorded a provision for credit losses of $160.9 million, of which $120.9 million was related to the provision for individual credit losses on impaired loans and $40.0 million for the provision for collective credit losses.

A significant factor influencing the individual allowance is the level of loans that were downgraded from performing to impaired status. When financial conditions deteriorate, more loans default. When they default, we classify them as impaired and record an amount equal to the net exposure as an individual allowance. Although the rate of these downgrades remained at 2.3% of the performing opening portfolio in 2016, the provision for individual credit losses slightly increased to 0.6% of the average portfolio in fiscal 2016, compared to 0.5% last year. Despite the increase in the provision for individual credit losses, the level of losses remained lower than our average expected loss rate. During the year, BDC also recorded a $40.0 million provision for collective credit losses to account for the growth of its portfolio and to reflect the economic uncertainty as a result of declining oil prices.

BDC closely manages the $554.7 million in impaired loans, which increased by $64.1 million in fiscal 2016, and the watch list portfolio, which amounted to $769.7 million in fiscal 2016, compared to $724.6 million in fiscal 2015. Impaired loans represented 2.7% of the total portfolio on March 31, 2016, up from 2.6% on March 31, 2015.

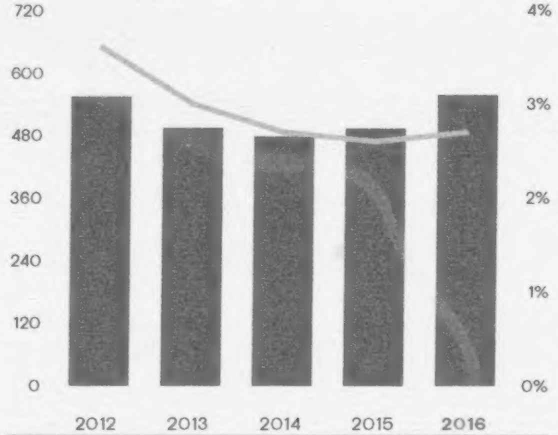
BDC maintains the allowance for credit losses at a level judged adequate to absorb the credit losses in the portfolio. This allowance comprises the individual allowance and the collective allowance. Management determines the individual allowance by identifying and determining losses related to individual impaired loans. It determines the collective allowance by assessing impairments in the existing performing loan portfolio that are not yet identified.

Provision for credit losses on loans
for the years ended March 31 ($ in millions)



	2012	2013	2014	2015	2016
■ Individual	86.3	69.1	82.9	85.9	**120.9**
▨ Collective	(124.5)	(50.0)	(10.0)	10.0	**40.0**
■▨ Provision for credit losses on loans	(38.2)	19.1	72.9	95.9	**160.9**
▬ As a % of average loan portfolio	(0.3%)	0.1%	0.4%	0.5%	**0.8%**

Impaired portfolio
as at March 31 ($ in millions)

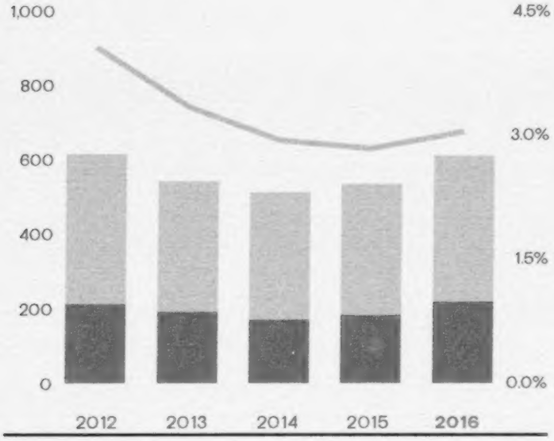


	2012	2013	2014	2015	2016
■ Impaired portfolio	550.8	491.8	475.9	490.6	**554.7**
▬ Impaired portfolio as a % of total loan portfolio	3.6%	3.0%	2.7%	2.6%	**2.7%**

Both the individual and collective allowances for credit losses have increased, reaching a total of $605.7 million on March 31, 2016, compared to $529.9 million in fiscal 2015. However, the total allowance represented 3.0% of the total loans outstanding, slightly higher than the 2.8% recorded last year.

To read more about credit risk management, please refer to Note 23—*Risk Management* to the Consolidated Financial Statements.

Allowance for credit losses
as at March 31 ($ in millions)



	2012	2013	2014	2015	2016
■ Individual allowance	210.2	188.3	168.3	179.9	**215.7**
▨ Collective allowance	400.0	350.0	340.0	350.0	**390.0**
■▨ Total allowance	610.2	538.3	508.3	529.9	**605.7**
— Total allowance as a % of loan portfolio	4.0%	3.3%	2.9%	2.8%	**3.0%**

Net gains or losses on other financial instruments

Net gains or losses on other financial instruments are mainly the result of fair value changes to long-term notes and derivatives due to fluctuations in market conditions.

The realized gains or losses are incurred when financial instruments are repurchased prior to maturity.

During fiscal 2016, Financing recorded net gains on other financial instruments of $4.3 million, which included net realized gains of $1.0 million and net unrealized gains of $3.3 million. This compared with net losses on other financial instruments of $3.3 million in fiscal 2015, comprising net realized gains of $0.6 million and net unrealized losses of $3.9 million.

Operating and administrative expenses

Operating and administrative expenses were $371.5 million in fiscal 2016, $24.1 million higher than the $347.4 million recorded last year. However, as a percentage of the average portfolio, operating and administrative expenses were 1.9%, comparable to those recorded in fiscal 2015. This was mainly due to higher salaries and benefits, as a result of increased staff levels following the deployment of an initiative aimed at increasing BDC's presence across Canada, especially in Western Canada and Ontario, and at sustaining a higher volume of activity. The objective is to help even more entrepreneurs and have a greater impact on their ability to innovate, grow and become more productive.

Performance against objectives

Financing's closing portfolio at the end of fiscal 2016, net of allowance for credit losses, stood at $19.7 billion, which is slightly lower than the corporate plan objective as a result of a higher-than-anticipated collective allowance for credit losses. Similarly, Financing's net income was $16.2 million lower than planned, mainly due to a higher-than-anticipated collective provision for credit losses.

Net interest, fee and other income was $4.1 million lower than the $974.0 million anticipated, due mainly to lower average loans outstanding throughout the year, partially offset by the slightly higher margin achieved. Total operating and administrative expenses were $5.5 million lower than the corporate plan objective, driven by our ongoing focus on efficiency.

Growth & Transition Capital

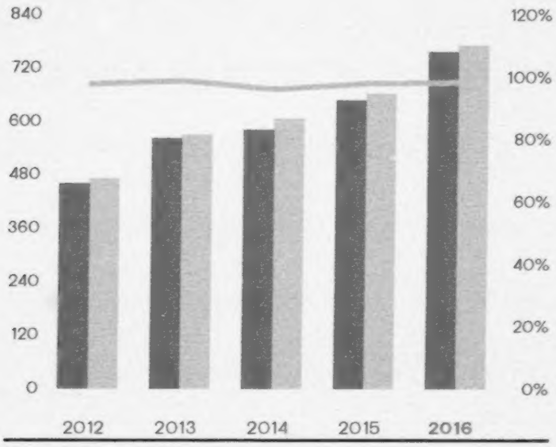
Growth & Transition Capital supports high-potential, growth-oriented firms by providing flexible debt, with or without convertible features, growth equity and equity-type financing for entrepreneurs. It offers tailored solutions to help firms that are past the start-up phase and need money to sustain growth. It takes more risks by accepting less security and financing intangibles, which is important as the Canadian economy becomes more knowledge based, and entrepreneurs finance ideas and concepts rather than bricks and mortar. In addition, Growth & Transition Capital helps Canadian firms transition from one owner to the next.

Subordinate financing investment portfolio

BDC's subordinate financing investment portfolio increased by 16.9%, from $642.8 million in fiscal 2015 to $751.4 million in fiscal 2016.

The fair value of the portfolio as a percentage of cost stood at 98.1%, an indication that the portfolio remained stable.

Subordinate financing investment portfolio
as at March 31 ($ in millions)



	2012	2013	2014	2015	2016
■ Fair value	457.4	557.8	576.7	642.8	751.4
▨ Cost	468.5	566.0	601.4	658.0	766.0
— Fair value as % of cost	97.6%	98.6%	95.9%	97.7%	98.1%

Net income from Growth & Transition Capital

Despite challenging economic conditions, Growth & Transition Capital's record-high net income of $53.7 million for the year was $15.2 million higher than in fiscal 2015. The increase was due mainly to higher net realized gains on investments and lower write-offs. Net income included $4.5 million attributable to non-controlling interests in fiscal 2016, compared to $2.2 million last year. The increase in non-controlling interest is due to an increase in unrealized appreciation of investments recognized in AlterInvest II Fund L.P.

Growth & Transition Capital results
for the years ended March 31 ($ in millions)

	2016	2015
Net revenue on investments	85.4	56.1
Net change in unrealized appreciation (depreciation) of investments	0.5	9.5
Income before operating and administrative expenses	85.9	65.6
Operating and administrative expenses	32.2	27.1
Net income from Growth & Transition Capital	53.7	38.5
Net income attributable to:		
BDC's shareholder	49.2	36.3
Non-controlling interests	4.5	2.2
Net income from Growth & Transition Capital	53.7	38.5

Net revenue on investments, which comprised net interest income, net realized gains on investments, and fee and other income, reached $85.4 million, $29.3 million higher than in fiscal 2015. Net interest income of $58.1 million was 10.5% higher than the $52.6 million recorded last year, mainly due to the growth of the portfolio. Net realized gains on investments of $0.4 million were $23.4 million higher than last year, mainly due to lower write-offs. Refer to Note 25—*Segmented Information* for more details.

In fiscal 2016, Growth & Transition Capital recorded a net change in unrealized appreciation of investments of $0.5 million, a $9.0 million lower appreciation than the $9.5 million net change in unrealized appreciation recorded last year. The net change in unrealized appreciation of investments is detailed below.

Net change in unrealized appreciation (depreciation) of investments
for the years ended March 31 ($ in millions)

	2016	2015
Net fair value appreciation (depreciation)	1.1	(8.5)
Reversal of net fair value depreciation (appreciation) due to realized income and write-offs	(0.6)	18.0
Net change in unrealized appreciation (depreciation) of investments	0.5	9.5

Operating and administrative expenses increased by $5.1 million from last year as a result of higher staff levels required to fully support the growth and transition plans of companies across Canada.

Performance against objectives

Net income from Growth & Transition Capital of $53.7 million in fiscal 2016 was higher than the corporate plan objective of $34.2 million, as BDC continues to contribute to the success of entrepreneurs. This difference was mainly due to a higher-than-anticipated net change in unrealized appreciation of investments.

Venture Capital

BDC Venture Capital is a major investor in Canada, active at every stage of a firm's development cycle, from seed through expansion. As the environment for venture capital (VC) remains challenging, Venture Capital's objective is to help build technology companies and return the VC industry to health, where potential for profitability attracts private sector investors. To achieve this, it is investing in innovative, technology-driven Canadian companies directly; investing indirectly through external private sector venture funds; and undertaking strategic initiatives and making targeted investments.

Direct investment

In its direct investing activities, BDC focuses on innovative, technology-based companies that have high growth potential, offer unique products or services, and are positioned to become dominant players in their markets. Venture Capital invests primarily in companies involved in the areas of industrial/clean/energy-tech, health care and information technology.

Strategic Initiatives and Partnerships (SIP)

To help rebuild and re-energize the VC ecosystem, we created the SIP team. It is developing innovative initiatives to reinforce key areas of the VC ecosystem and is making investments in specialized funds, accelerators and graduates of accelerators.

Indirect investment

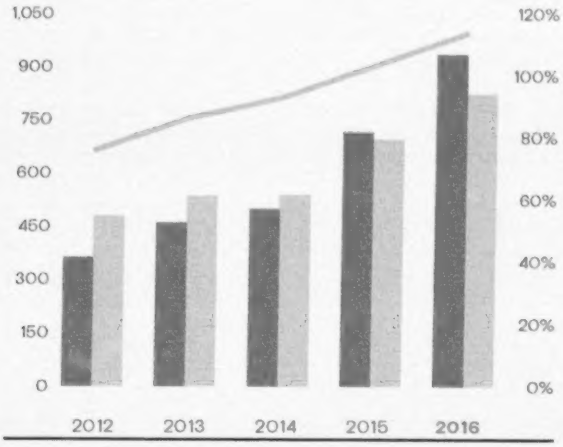
BDC's indirect investment approach is focused on building and supporting at-scale, world-class Canadian venture capital funds. This is being done with larger commitments by BDC to private sector funds that have a clear sector focus and recognized expertise.

Venture Capital portfolio

The fair value of the portfolio increased from $709.6 million in fiscal 2015 to $928.0 million this year. The portfolio is composed of $552.9 million in direct investments and $375.1 million in investments in 55 funds. The increase in the portfolio fair value was mainly due to higher disbursements for investments and to higher fair value appreciation of both direct and indirect investments.

The fair value of the total portfolio as a percentage of cost was 113.4% as at March 31, 2016, compared to 102.9% last year. Fiscal 2016 fair value of the direct investments portfolio as a percentage of cost was 104.1% and 130.6% for the funds.

Venture Capital portfolio—total investments
as at March 31 ($ in millions)

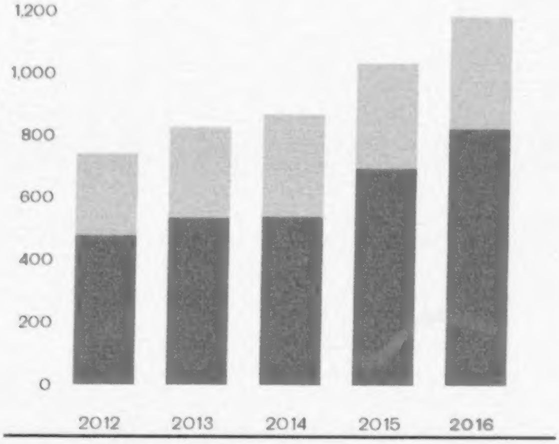


	2012	2013	2014	2015	2016
■ Fair value	359.0	456.7	495.1	709.6	**928.0**
▨ Portfolio (cost)	474.4	531.1	534.6	689.9	**818.3**
— Fair value as % of cost	75.7%	86.0%	92.6%	102.9%	**113.4%**

The total VC commitment to investees, which represents the portfolio outstanding at cost plus undisbursed commitments, amounted to $1,178.3 million as at March 31, 2016. This represents $557.7 million committed to direct investments and $620.6 million to private sector investment funds, for an increase of 14.7% compared to last year.

As planned, our commitments to private sector investment funds are greater than those to direct investments. We have committed most of the undisbursed portion to private funds and expect to invest it over the next few years.

Total commitment to Venture Capital investees
as at March 31 ($ in millions)



	2012	2013	2014	2015	2016
■ Portfolio (cost)	474.4	531.1	534.6	689.9	**818.3**
▨ Undisbursed commitment	261.1	290.8	327.3	337.1	**360.0**
■▨ Total commitment to Venture Capital investees	735.5	821.9	861.9	1,027.0	**1,178.3**

Net income from Venture Capital

The measure of success for BDC's work in the VC market is its impact. For example, BDC's initiatives and investments in early- and seed-stage funding, including its role in the Venture Capital Strategic Investment Plan (VCSIP), have had a significant impact. VCSIP has already helped improve direct investment activities by allowing the VC ecosystem to expand its geographical scope and make direct investments in firms that have graduated from accelerators that it supports. In addition, the indirect investing strategy is generating positive results, with the funds portfolio performing at all-time highs.

Venture Capital results
for the years ended March 31 ($ in millions)

	2016	2015
Net revenue (loss) on investments	(2.5)	(10.4)
Net change in unrealized appreciation (depreciation) of investments	81.6	31.3
Net unrealized foreign exchange gains (losses) on investments	8.4	28.0
Net gains (losses) on other financial instruments	0.1	(4.1)
Income before operating and administrative expenses	87.6	44.8
Operating and administrative expenses	20.2	21.5
Net income from Venture Capital	67.4	23.3
Net income attributable to:		
BDC's shareholder	69.6	25.3
Non-controlling interests	(2.2)	(2.0)
Net income from Venture Capital	67.4	23.3

In fiscal 2016, Venture Capital recorded a net income of $67.4 million, compared to a $23.3 million net income last year. A higher net change in unrealized appreciation was recorded in fiscal 2016, partially offset by lower unrealized foreign exchange gains on the U.S. dollar portfolio.

The net loss on investments, which comprised net realized losses on investments and fee and other income, was $2.5 million, lower than the $10.4 million loss recorded in fiscal 2015. Net realized losses on investments amounted to $6.4 million this year, compared to net realized losses of $12.1 million last year. Fiscal 2016 results included $30.3 million in net realized gains from sales and $36.7 million in write-offs. The net realized losses on investments had minimal impact on results, as the changes in fair value on these investments made in prior periods were reversed at the time of exit.

Venture Capital also received $100.8 million in proceeds on sale of investments in fiscal 2016, compared to $23.2 million in fiscal 2015.

BDC recorded a net change in unrealized appreciation of investments of $81.6 million (compared to a net change in unrealized appreciation of investments of $31.3 million last year), as detailed below.

Net change in unrealized appreciation (depreciation) of investments
for the years ended March 31 ($ in millions)

	2016	2015
Net fair value appreciation (depreciation)	67.8	19.5
Reversal of fair value depreciation (appreciation) on divested investments and write-offs	13.8	11.8
Net change in unrealized appreciation (depreciation) of investments	81.6	31.3

Both direct and indirect investments recorded fair value appreciation in fiscal 2016 for a total of $67.8 million, an increase of $48.3 million compared to last year.

Net unrealized foreign exchange gains of $8.4 million on investments were due to foreign exchange fluctuations on the U.S. dollar. BDC uses foreign exchange contracts to hedge U.S. dollar proceeds, following the occurrence of a liquidity event under which a venture capital investment is monetized as cash.

Operating and administrative expenses were $20.2 million, lower than the $21.5 million recorded last year.

Venture Capital's net loss attributable to non-controlling interests was $2.2 million for the year, $0.2 million higher than last year.

Performance against objectives
Venture Capital's net income of $67.4 million was higher than the $14.0 million net loss anticipated in the corporate plan. This was largely due to a higher-than-anticipated net change in unrealized appreciation of investments and to unrealized foreign exchange gains on investments. Operating and administrative expenses were lower than the corporate plan objective. Net loss attributable to non-controlling interests of $2.2 million was $1.7 million higher than anticipated.

BDC Advantage

BDC Advantage is a new line of business that is developing a range of non-financial services to help SMEs improve their businesses, scale up and expand internationally. Building on BDC's consulting practices, we developed a range of other non-financial services, including new offerings for Canada's high-impact firms and an enhanced offering to help businesses expand internationally.

Net loss from BDC Advantage
BDC Advantage's net loss of $31.6 million in fiscal 2016 was $7.4 million higher than the $24.2 million net loss recorded in fiscal 2015. Revenues of $16.7 million were $0.3 million lower than the revenues of $17.0 million recorded last year. Operating and administrative expenses of $48.3 million were $7.1 million higher than those recorded in fiscal 2015, mainly due to increased staff levels, as BDC continued to allocate resources and build a team of experts and advisors to offer a range of non-financial support to entrepreneurs, including high-impact firms.

BDC Advantage results
for the years ended March 31 ($ in millions)

	2016	2015
Revenue	16.7	17.0
Operating and administrative expenses	48.3	41.2
Net loss from BDC Advantage	(31.6)	(24.2)

Performance against objectives
For fiscal 2016, the net loss of $31.6 million in BDC Advantage was lower than the corporate plan estimate of $37.3 million.

Revenues were $16.7 million, which was $1.8 million lower than anticipated. Operating and administrative expenses, however, were also lower than anticipated.

Securitization

BDC is maintaining its role in the securitization market, where SMEs access financing for the vehicles and equipment they need to improve productivity. The Funding Platform for Independent Lenders (F-PIL, formerly known as the Multi-Seller Platform for Small Originators, or MSPSO) is a program under Securitization that is aimed at helping entrepreneurs grow their businesses through indirect financing. The F-PIL targets small and medium-sized financing companies in different sectors, including vehicles, machinery and equipment. The program leverages existing private sector financing structures, and is an efficient and effective way to complement BDC's direct financing of these assets. BDC also provides fully secured loans to small and medium-sized finance and leasing companies.

Securitization portfolio
As at March 31, 2016, total asset-backed securities (ABS) stood at $509.8 million, compared to $407.7 million in fiscal 2015, which represents significant growth of 25.0%.

Net income from Securitization
Securitization recorded net income of $3.1 million for the year, $0.9 million lower than last year, mainly due to lower net interest income as a result of a decrease in the yield. Operating and administrative expenses amounted to $2.3 million in fiscal 2016, slightly higher than last year.

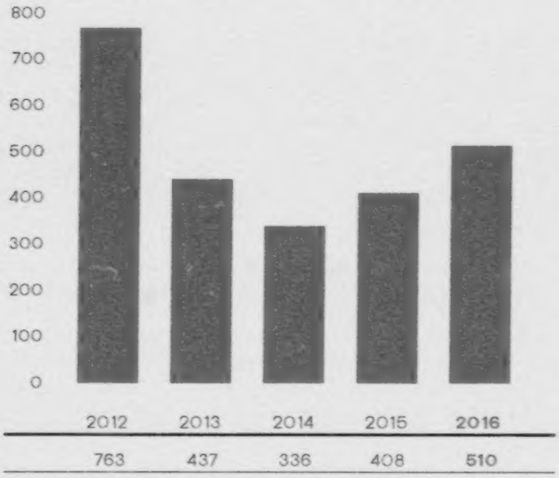
Securitization results
for the years ended March 31 ($ in millions)

	2016	2015
Net revenue	5.4	6.0
Operating and administrative expenses	2.3	2.0
Net income from Securitization	3.1	4.0

Performance against objectives

Securitization's net income of $3.1 million was $0.3 million higher than expected, mostly due to higher fee income.

Asset-backed securities portfolio
as at March 31 ($ in millions)



Venture Capital Action Plan

During fiscal 2016, BDC continued the deployment of the Venture Capital Action Plan (VCAP), a federal government initiative to invest $400 million to increase private sector venture capital financing through four funds of funds and four high-performing funds for high-potential, innovative Canadian businesses has been committed. VCAP continued to show strong momentum; the four private sector Funds of Funds have raised $1.356 billion as of March 31, 2016.

Venture Capital Action Plan portfolio

Venture Capital Action Plan authorized $65.0 million in fiscal 2016, compared to $114.8 million last year. As at March 31, 2016, the total portfolio stood at $137.7 million, compared to $47.6 million last year. The increase is mainly due to disbursements of $86.4 million during fiscal 2016.

Net income (loss) from Venture Capital Action Plan

Venture Capital Action Plan recorded a net income of $3.3 million, mostly as a result of a net change in unrealized appreciation of investments of $3.9 million.

Operating and administrative expenses were $0.9 million, consistent with last year's level.

Venture Capital Action Plan results
for the years ended March 31 ($ in millions)

	2016	2015
Net revenue (loss) on investments	0.3	0.2
Net change in unrealized appreciation (depreciation) of investments	3.9	(3.6)
Income before operating and administrative expenses	4.2	(3.4)
Operating and administrative expenses	0.9	0.9
Net income (loss) from Venture Capital Action Plan	3.3	(4.3)

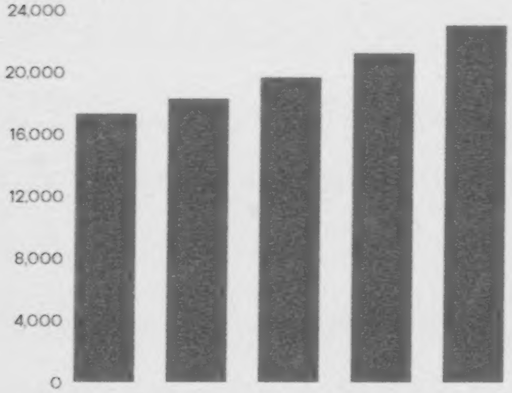
Performance against objectives

Net income of $3.3 million was $24.3 million better than anticipated, mostly due to a higher-than-anticipated net change in unrealized appreciation of investments.

Consolidated Financial Position and Statement of Cash Flows

Total assets of $22.9 billion increased by $1.8 billion from a year ago, largely due to the $1.3 billion increase in our loans portfolio, combined with a $108.6 million increase in the subordinate financing investment portfolio, a $308.5 million increase in the venture capital and venture capital action plan investment portfolios, and a $102.1 million increase in ABS.

Total assets—BDC
as at March 31 ($ in millions)



2012	2013	2014	2015	**2016**
17,220	18,184	19,570	21,129	**22,906**

The ABS portfolio stood at $509.8 million as at March 31, 2016, compared to $407.7 million as at March 31, 2015. The growth of the portfolio is mainly due to an increase in securities purchased under the F-PIL program.

At $19.7 billion ($20.3 billion in gross portfolio net of a $0.6 billion allowance for credit losses), the loan portfolio represented BDC's largest asset. The gross loan portfolio has grown by 7.4% since March 31, 2015. BDC remained committed to actively supporting SMEs' needs and helping them improve competitiveness, while continuing to identify and address market gaps in financing across Canada.

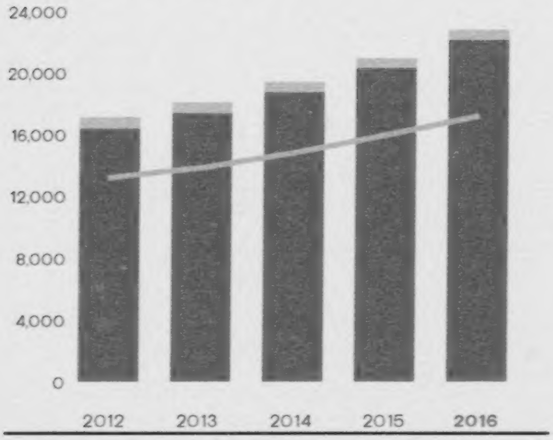
As for BDC's investment portfolios, the subordinate financing investment portfolio stood at $751.4 million, representing growth of 16.9% since March 31, 2015. The venture capital portfolio was $928.0 million as at March 31, 2016, compared to $709.6 million as at March 31, 2015. Net disbursements and unrealized appreciation on investments accounted for most of the increase in the venture capital portfolio. The venture capital action plan portfolio stood at $137.7 million as at March 31, 2016, compared to $47.6 million as at March 31, 2015. Investment disbursements accounted for most of the increase.

Derivative assets of $51.7 million and derivative liabilities of $4.1 million reflect the fair value of derivative financial instruments as at March 31, 2016. Net derivative fair value increased by $1.8 million compared to the value as at March 31, 2015, primarily as a result of a decrease in maturities and redemptions, partially offset by increases in foreign exchange rates. BDC acquires derivative financial instruments to manage exposures to interest, currency and other market risks. BDC does not hold derivatives for speculative or trading purposes.

As at March 31, 2016, BDC recorded a net defined benefit asset of $54.0 million related to the registered pension plan, and a net defined benefit liability of $218.0 million for the other plans, for a total net defined benefit liability of $164.0 million. This represents an increase of $44.7 million compared to the net defined benefit liability as at March 31, 2015, mostly as a result of remeasurement losses recorded during the year. For further information, refer to Note 19—*Net Defined Benefit Asset or Liability* to the Consolidated Financial Statements.

BDC holds cash and cash equivalents in accordance with its treasury risk policy. The Bank's liquidities, which ensure funds are available to meet BDC's cash outflows, totalled $680.1 million as at March 31, 2016, compared to $667.1 million as at March 31, 2015.

Borrowings
as at March 31 ($ in millions)



	2012	2013	2014	2015	2016
▨ Liquid assets	741	702	677	667	**680**
■ Portfolios[1]	16,319	17,324	18,654	20,222	**22,045**
— Borrowings	13,224	13,868	14,832	15,984	**17,198**

(1) Includes net portfolios, investments and asset-backed securities.

For the year ended March 31, 2016, cash flow used by investing activities amounted to $438.4 million. Financing activities provided $1,299.7 million in cash flow, as long-term notes were repaid for $189.1 million and short-term notes increased by a net amount of $1,412.5 million. BDC also issued common shares totalling $150.0 million for the Venture Capital Action Plan initiative. Operating activities used $848.3 million in cash flows. For further information, refer to the Consolidated Statement of Cash Flows on page 57.

As at March 31, 2016, BDC funded its portfolios and liquidities with borrowings of $17.2 billion and total equity of $5.3 billion. Borrowings comprised $16.8 billion in short-term notes and $0.4 billion in long-term notes.

As at March 31, 2016, total equity consisted of $5.3 billion attributable to BDC's shareholder and $26.0 million attributable to non-controlling interests.

BDC's return on common equity (ROE) reached 10.3% in fiscal 2016, above our minimum target of the 10-year moving average cost of capital of 1.96% for the Government of Canada's three-year bonds.

Total equity
as at March 31 ($ in millions)

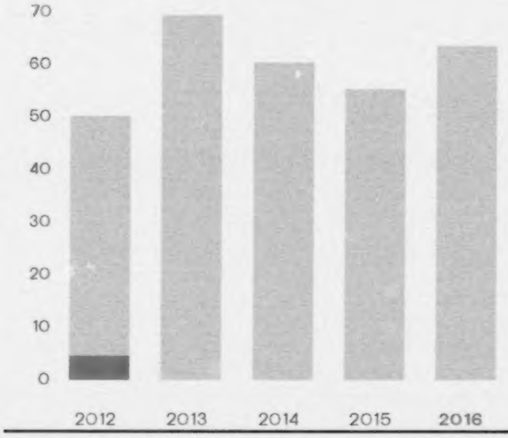
	2016	2015	2014	2013	2012
Equity					
Share capital	**2,288.4**	2,138.4	2,138.4	2,088.4	2,088.4
Contributed surplus	**27.8**	27.8	27.8	27.8	27.8
Retained earnings	**3,003.5**	2,570.5	2,167.3	1,748.1	1,378.6
Accumulated other comprehensive income	**3.8**	7.9	5.5	8.6	15.2
Equity attributable to BDC's shareholder	**5,323.5**	4,744.6	4,339.0	3,872.9	3,510.0
Non-controlling interests	**26.0**	34.5	51.1	82.8	115.3
Total equity	**5,349.5**	4,779.1	4,390.1	3,955.7	3,625.3
ROE[1]	**10.3%**	10.6%	10.2%	12.0%	13.7%

(1) ROE is calculated based on equity attributable to BDC's shareholder (see the glossary on page 130 for a detailed definition).

Dividends

BDC pays dividends to its sole shareholder, the Government of Canada. A total dividend of $62.9 million was paid in fiscal 2016. Based on fiscal 2016 performance, BDC will make a payment of $68.6 million in dividends on common shares, which will be declared and paid after March 31, 2016.

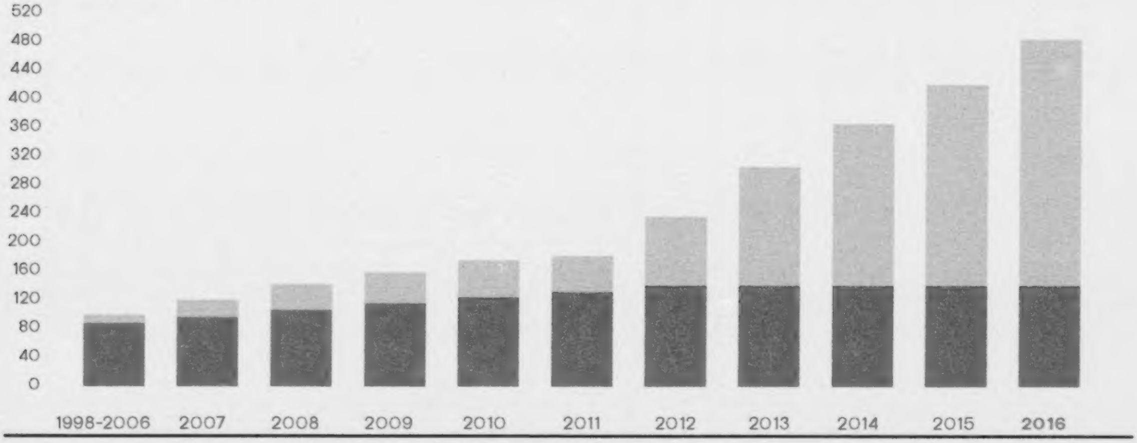
Dividends
for the years ended March 31 ($ in millions)



	2012	2013	2014	2015	**2016**
■ Preferred dividends declared	4.5	–	–	–	–
▨ Common dividends declared[1]	45.1	68.6	59.6	54.6	**62.9**
■▨ Total dividends declared	49.6	68.6	59.6	54.6	**62.9**

(1) Based on previous year's performance.

Cumulative dividends paid
as at March 31 ($ in millions)



	1998-2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	**2016**
■ Preferred dividends paid	86.4	95.1	104.5	114.0	122.9	129.3	138.8	138.8	138.8	138.8	**138.8**
▨ Common dividends paid	11.5	23.6	35.7	42.7	50.6	50.6	95.7	164.3	223.9	278.5	**341.4**
■▨ Total dividends paid	97.9	118.7	140.2	156.7	173.5	179.9	234.5	303.1	362.7	417.3	**480.2**

Capital Management

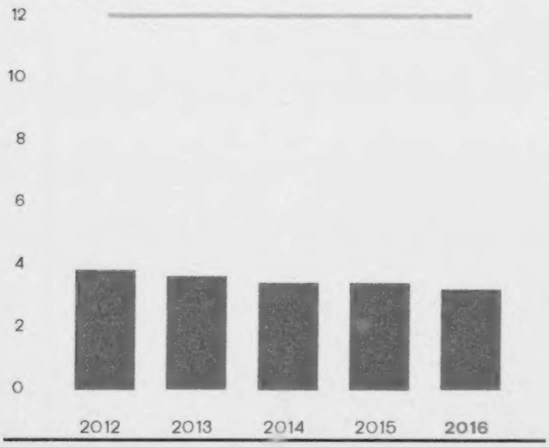
Statutory limitations

The BDC Act specifies that the aggregate of borrowings and contingent liabilities in the form of guarantees provided by BDC may not exceed 12 times its equity. This ratio excludes accumulated other comprehensive income. BDC's debt-to equity ratio as at March 31, 2016, was 3.2:1, compared to 3.4:1 at March 31, 2015.

In addition, the paid-in capital, the contributed surplus and any proceeds that have been prescribed as equity (such as hybrid capital instruments) must not at any time exceed $3.0 billion. As at March 31, 2016, these amounts totalled $2.3 billion, compared to $2.2 billion as at March 31, 2015.

During the year, a $150 million capital injection was received from the shareholder for the deployment of the Venture Capital Action Plan.

Debt-to-equity ratio
as at March 31



	2012	2013	2014	2015	2016
■ Actual	3.8	3.6	3.4	3.4	**3.2**
— Statutory limit	12.0	12.0	12.0	12.0	**12.0**

Capital adequacy

Treasury Board of Canada Secretariat provides guidelines to BDC on its capital adequacy ratios. BDC must maintain overall capital and loss provisions sufficient to ensure that it can withstand unfavourable economic circumstances without needing government funding.

Adequate capital ratios reflect the relative risk of BDC's assets. The recommended capital is 10% for asset-backed securities; 10% for term loans and 25% for quasi-equity loans, net of allowance for credit losses; 25% for subordinate financing investments; and 100% for venture capital and VCAP investments. BDC has also established capital adequacy ratios for guarantees to reflect their relative risk. BDC operated in accordance with its capital guidelines during the year. For further details, refer to Note 22—*Capital Management* to the Consolidated Financial Statements.

BDC also uses an economic capital model to internally assess its capital adequacy. The economic capital model uses methodologies consistent with industry practices. It is calculated for various types of risks: credit, business, pension plan, interest rate and operational risks. Models are based on advanced quantification methods and internal risk-based assumptions. They consider both disbursed and undisbursed commitments. The economic capital model is calculated over a one-year time horizon at a given confidence level, based on the solvency standard set in BDC's risk appetite statement.

In keeping with industry practices and the core tenets of sound financial and risk management, BDC also ensures that the level of capital is sufficient to remain financially sustainable during a recessionary scenario, using stress-testing analyses. BDC conducts enterprise-wide stress tests on its significant risks and portfolios to determine an appropriate level of capital needed to withstand a sustained economic downturn.

In addition, BDC reserves capital for the investments it expects to make in its Venture Capital portfolio, including VCSIP, for which the government requested that BDC set aside $100 million in capital.

BDC's economic capital status (available capital less required capital) stood at $244.6 million at the end of fiscal 2016 ($328 million as at March 31, 2015). This status includes capital reserves for undisbursed commitments and Venture Capital initiatives, as well as a capital reserve to withstand a sustained economic downturn.

Net Defined Benefit Asset or Liability

BDC's pension plan, supplemental plans and other employee future benefits are based on actuarial valuations and assumptions detailed in Note 19—*Net Defined Benefit Asset or Liability* to the Consolidated Financial Statements. Several factors, particularly the discount rate used to value future liabilities, influence the calculation of those obligations. For accounting measurement purposes, the discount rate used at each measurement date is based on market interest rates for long-term, high-quality debt instruments.

BDC's employer contributions to the registered pension plan totalled $44.7 million in fiscal 2016, compared to $60.1 million in fiscal 2015. BDC's best estimate of the contributions to be paid for fiscal 2017 is $27.5 million. The significant and continuous decrease in BDC's contributions to the registered pension plan is a result of improved funding ratios, as well as a change in the design of BDC's defined benefit pension plan. For more information regarding the change in the design of BDC's defined benefit pension plan, refer to Note 1—*Act of Incorporation, Objectives and Operations of the Corporation* to the Consolidated Financial Statements.

We fund our registered pension plan in accordance with applicable federal pension legislation and actuarial standards of practice in Canada to ensure proper funding of employee benefit obligations. As of March 31, 2016, the funded status of the registered pension plan was in a surplus position on a going-concern basis and in a deficit position on a solvency basis. We will continue to contribute to the pension fund in future years to manage our funded status, as prescribed by the applicable federal pension legislation.

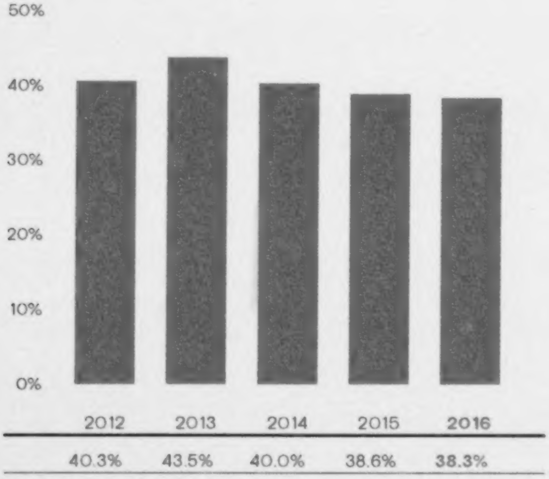
Since fiscal 2006, BDC has funded the supplemental plans on a voluntary basis. Other employee future benefits plans are unfunded.

Operational Efficiency

As can be seen in the graph, operational efficiency is a longstanding, ongoing objective at BDC.

Over the years, BDC has made a concerted effort to achieve efficiencies while fulfilling its role as a development bank and implementing government priorities. It is continuing this tradition and observing the intent of the government's strategic review by carefully managing operating expenses, identifying and gaining efficiencies, and improving its efficiency ratio, that is, the expenses incurred to earn each dollar of revenue. (The lower the ratio, the better.) As a result, the financing efficiency ratio has improved from 40.3% in fiscal 2012 to 38.3% in fiscal 2016.

Financing efficiency ratio[1]
for the years ended March 31



(1) A lower ratio indicates improved efficiency.

For the definition of efficiency ratio, refer to the Glossary on page 130.

Outlook for 2017

Growth projections in Canada are still modest. Even though increased spending on infrastructure over the next few years should stimulate the economy, low commodity prices combined with slow productivity growth and an aging population are expected to keep Canada's growth at moderate levels. Continuing low interest rates and liquidity in the market should facilitate access to credit for Canadian SMEs. Given current market dynamics, and in line with its aspiration to be a leader in making Canadian entrepreneurs more competitive, BDC will continue to play its important complementary role.

BDC's consolidated net income is expected to amount to $368 million in fiscal 2017, of which $371 million will be attributable to BDC's shareholder and a loss of $3 million to non-controlling interests. The decrease in net income compared to the net income of $537.7 million in fiscal 2016 is in part due to costs linked to increasing reach and visibility, helping firms affected by the price of oil, and deploying the high-impact firm approach. Results from Venture Capital and Growth & Transition Capital are also expected to return to more normal levels. BDC is forecasting dividend payments of $66 million in fiscal 2017.

Financing

Financing will continue to assist small businesses, including those that have difficulty accessing financing due to their location, sector or demographic. It is maintaining a focus on small loans, often for less than $250,000, to help entrepreneurs buy equipment to increase productivity, innovate through information and communication technology (ICT), and grow and explore new markets. BDC will also continue to offer indirect support to Canadian SMEs through its portfolio guarantee program. BDC expects net financing acceptances to increase by 8.3% to $5.2 billion in fiscal 2017, and the gross portfolio is expected to grow by 5.4% to $21.4 billion in fiscal 2017.

Financing's net income is expected to decrease slightly to $422 million in fiscal 2017, reflecting the uncertainty in the economy and increased efforts to support firms affected by the drop in the price of oil. As such, provisions for credit losses on loans are expected to increase to $198 million or 0.9% of the average outstanding financing portfolio. Net interest income is expected to increase to $1,013 million in fiscal 2017. Financing's operating expenses as a percentage of the average portfolio outstanding are expected to slightly increase to 2.0%, as a result of its efforts to improve its reach and visibility, including increased investments in marketing.

Growth & Transition Capital

Growth & Transition Capital is playing an increasingly important role in supporting the growth plans of SMEs through flexible financing solutions and a diverse product offering.

Growth & Transition Capital will continue to address the needs of high-growth firms and companies in transition through its specialized subordinate financing investments. The volume of acceptances is expected to reach $270 million in fiscal 2017, up from $259 million in fiscal 2016. The fair value of the portfolio is expected to grow from $751 million in fiscal 2016 to $808 million in fiscal 2017. Even with the growth in the portfolio, operating expenses as a percentage of the average outstanding portfolio at cost are expected to decrease to 4.1% in fiscal 2017, reflecting improved efficiencies.

Net income from Growth & Transition Capital is projected to be $36 million in fiscal 2017. After a few years of exceptionally low losses on investments, losses are expected to be at more representative levels for the risk being taken in BDC's subordinate financing portfolio.

Venture Capital

As one of the most active investors in the market, Venture Capital is helping to demonstrate the viability of the Canadian VC industry, by carrying out its strategy of direct and indirect investing, and by creating the conditions for success through its Strategic Initiatives and Partnerships (SIP) programs.

To support innovative Canadian companies and create the conditions for success in the VC ecosystem, Venture Capital estimates that, in fiscal 2017, it will authorize $250 million in investments, including $100 million in direct investments and $150 million in indirect investments. The fair value of the venture capital portfolio is forecasted to be $995 million by March 31, 2017, representing 116% of its cost.

For fiscal 2017, Venture Capital forecasts a net loss of $20 million as a result of expected unrealized depreciation of investments, including a net loss of $3 million attributable to non-controlling interests. Operating and administrative expenses are projected to be $24 million, which represents 2.9% of the average outstanding portfolio at cost.

BDC Advantage

BDC Advantage is a new business line that builds on its approach to non-financial services and on BDC's consulting practices to develop other non-financial services, including new offerings for Canada's high-impact firms, an enhanced offering to help businesses globalize and other services that will be developed in the coming years. Most BDC Advantage services are offered on a fee-for-service basis and are delivered by a Canada-wide network of third-party consultants using BDC methodologies. Revenues generated by BDC Advantage are not always sufficient to cover associated costs, but management considers these activities as an investment in the competitiveness of Canadian entrepreneurs and SMEs. A net loss of $54 million is forecasted for fiscal 2017. This expected loss includes costs related to the implementation of the high-impact firm initiative.

Securitization

By partnering with the private sector through securitization, BDC ensures that smaller financing companies can remain active in the market and able to provide financing for the vehicle and equipment needs of businesses and consumers, ultimately helping SMEs improve their productivity. The Funding Platform for Independent Lenders (F-PIL) ensures that smaller financing companies can provide financing for the vehicle and equipment needs of businesses and consumers.

Under the F-PIL program, BDC forecasts authorizations of $150 million in fiscal 2017. Securitization's total portfolio is expected to close at a fair value of $485 million as at March 31, 2017. Total net income for fiscal 2017 is projected to be $3 million.

Venture Capital Action Plan (VCAP)

Recognizing the importance of VC to Canada's economic prosperity, in Economic Action Plan 2012, the government announced $400 million to help increase private sector investment in early-stage risk capital and to support the creation of large-scale VC funds led by the private sector. In a subsequent announcement made in January 2013, the Venture Capital Action Plan (VCAP), a comprehensive strategy for deploying the new capital, was introduced. BDC was asked to carry out certain duties and functions to support the operations of this new business line.

BDC will continue the deployment of the VCAP program. For fiscal 2017, BDC anticipates that $119 million will be disbursed, for a total of $257 million since the inception of the program, and forecasts that it will incur losses of $19 million, as BDC does not expect proceeds to be generated over the next few years. BDC believes that the combined effect of VCAP, the Venture Capital Strategic Investment Plan and its own VC investing activities will have a significant positive impact on the VC market in Canada.

Supporting cross-governmental initiatives, BDC will continue to play a leadership role in different initiatives spanning several federal departments, entities and Crown corporations. Initiatives are underway related to clean technologies and mid-sized growth firms, and will see BDC working seamlessly with Export Development Canada, National Research Council Canada, Sustainable Development Technology Canada, Innovation, Science and Economic Development Canada, and Global Affairs Canada, among others.

4

Risk Management

BDC assumes more risk to better support small and medium-sized businesses while remaining financially sustainable. Our strong risk management practices enable us to take appropriate risks while offering relevant services.

We manage our risks by using formal risk reviews and rigorous processes. These include defining our risk appetite, developing risk policies, and setting delegated authorities and limits.

Risk is a defining, unavoidable feature of the financial services sector. It is inherent in virtually all of BDC's activities.

Risk is also a defining feature of entrepreneurial activity. And as we enter into business relationships with Canada's entrepreneurs, we must identify and manage several kinds of risk—to the greatest degree possible—for entrepreneurs to succeed.

BDC has strong risk management practices that emphasize risk identification, risk management, transparency and accountability.

Our Board of Directors provides essential, independent oversight of BDC's exposure to risk.

Enterprise Risk Management Policy

The enterprise risk management (ERM) policy codifies the integrated, enterprise-wide process we use to identify, analyze, accept, mitigate, monitor and report risks. It also defines the roles and responsibilities of board members, management, functional units and employees in implementing the policy.

BDC's Board of Directors reviews and approves the policy at least every two years.

Risk Appetite Statement

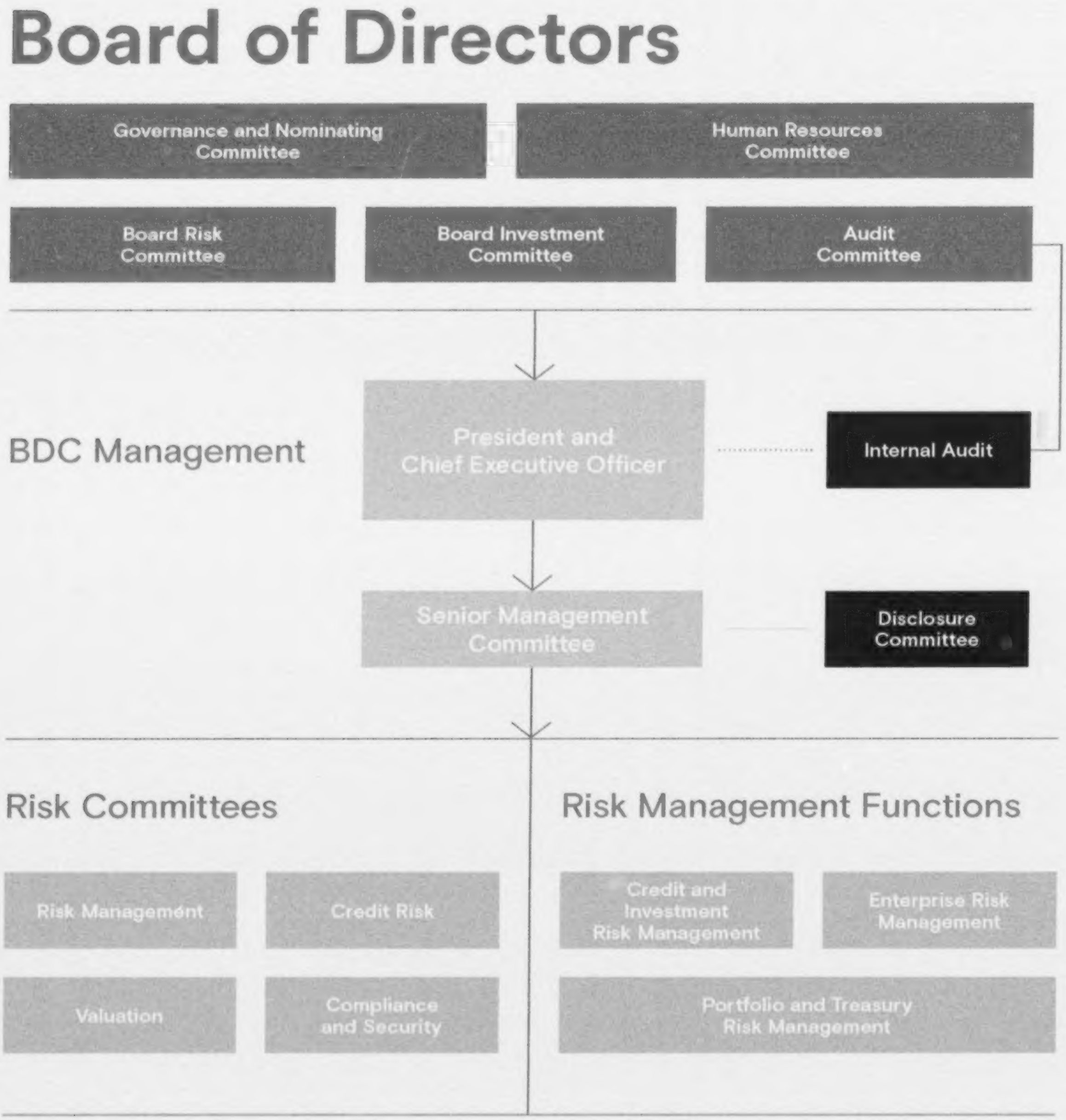
Our ERM framework includes a risk appetite statement that enables us to articulate and continuously monitor our risk profile against our defined risk appetite and related limits, taking actions as needed to maintain an appropriate balance of risk and return.

BDC's Board of Directors reviews and approves the risk appetite statement annually.

BDC's Principles of Enterprise Risk Management

1. Risk management is everyone's responsibility, from the Board of Directors to employees.
2. We manage risk by balancing it with appropriate return, in line with our risk appetite.
3. We integrate risk management into key business processes, such as strategic business and budget planning, lending, investing and consulting activities.
4. The ERM policy codifies a comprehensive, disciplined and continuous process that we use to identify, analyze, accept, mitigate, monitor and report risks within approved risk tolerances.
5. In the risk appetite statement and risk management-related policies, the board sets the acceptable levels of risk that BDC will tolerate.
6. BDC's policies and processes are consistent with ERM best practices.

The Board of Directors and Its Governance


Board of Directors
Governance and Nominating Committee
Human Resources Committee
Board Risk Committee
Board Investment Committee
Audit Committee
BDC Management
President and Chief Executive Officer
Internal Audit
Senior Management Committee
Disclosure Committee
Risk Committees
Risk Management
Credit Risk
Valuation
Compliance and Security
Risk Management Functions
Credit and Investment Risk Management
Enterprise Risk Management
Portfolio and Treasury Risk Management

The Board of Directors

The board and its committees oversee governance and risk management.

In addition to approving the risk appetite statement, the board also approves risk policies and strategies; ensures BDC's risk management is effective; reviews portfolio and treasury risks; reviews capital adequacy and stress-testing analyses; sets clear levels of delegation of authority for transactions; and ensures an appropriate link between risk and reward.

Although all committees consider risk in their deliberations, as appropriate, three committees—the Board Risk Committee, the Board Investment Committee and the Audit Committee—have specific responsibilities for managing risk. For full details on the board and its committees, please see the Corporate Governance section, starting on page 119.

The Board Risk Committee advises the board on how BDC is effectively identifying and managing significant risks. It also reviews reports on BDC's risk profile, including risk appetite statement measures, targets and limits. It regularly reviews risk management policies and reports. The committee also approves transactions above a certain threshold.

The Board Investment Committee advises the board on how effectively BDC is managing its Venture Capital, Venture Capital Action Plan and Growth & Transition Capital investment activities. It also approves transactions above a certain threshold.

The Audit Committee advises the board on BDC's oversight and objective assessment of its financial performance and financial statements, internal controls, financial reporting, accounting standards, and disclosure controls. It also keeps the board informed of the quality and independence of BDC's internal and external audit functions.

BDC Management: Risk Committees and Functions

The Senior Management Committee (SMC) comprises the President and CEO; the executive financial, risk and operating officers; and designated senior vice presidents. It ensures that BDC establishes and respects sound risk management strategies and practices. It makes sure that BDC has an integrated vision to address key strategic, financial (credit, market and liquidity) and operational risks. It also, through the Disclosure Committee, oversees BDC's disclosure obligations and practices.

The Risk Management Committee includes senior key leaders from multiple business units. Its mandate focuses on oversight. As such, the committee ensures that BDC has an adequate and effective ERM framework to identify and evaluate trends in critical issues; to evaluate or quantify their probable impact; and to ensure that BDC is mitigating them within its risk appetite.

More specifically, the committee reviews quality and the migration of risk in the loan portfolio, the securitization portfolio, and venture capital and subordinate financing investments. It also reviews financial performance, capital adequacy and BDC's risk appetite statement; ensures that treasury activities and related asset liability management comply with BDC policy; and receives regular updates on the management of investments relative to BDC's pension funds.

The committee focuses on significant risks requiring immediate attention. It reports to the SMC and the board on these risks and plans to mitigate them.

The Credit Risk and Investment Committee includes senior key leaders. They adjudicate and approve transactions within prescribed limits. For larger transactions, they make recommendations to the Board Risk Committee or the Board Investment Committee.

The Valuation Committees oversee the assessment and determination of the fair value of a portfolio of investments. They include senior key leaders and an external chartered business valuator.

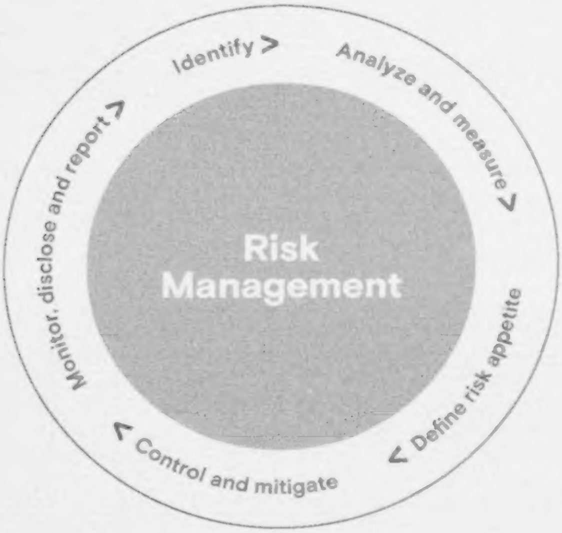
The Compliance and Security Committee reviews and recommends actions related to security, information management, BDC's policies and corporate directives framework, and compliance with applicable laws.

BDC's three risk management functions are ERM, credit and investment risk management, and portfolio risk management, which includes treasury risk management. These three functions do the following:

- ensure that BDC applies appropriate risk management principles, policies and corporate directives to manage significant and emerging risks, according to risk thresholds
- develop tools to measure, monitor and report on these risks
- provide timely and complete reports on these risks to the organization's risk management committees

The Internal Audit Department promotes sound risk management practices, which are outlined in BDC's corporate risk management policies. Through its risk-based annual audit plan, it works to ensure that BDC follows these practices.

The ERM Framework



Using an ERM framework helps BDC protect itself by managing risk exposure, resolving uncertainty and building reputational equity. It ensures that BDC makes risk-related decisions in a methodical, consistent way.

The ERM policy outlines the way BDC manages risk by identifying and assessing significant risks, and managing them on an enterprise-wide basis, while our risk appetite statement ensures a consistent understanding of our risk tolerance and limits.

Identify

Every quarter, we identify, assess, document and classify risks at the corporate and functional levels. Then we present them to the Risk Management Committee, the SMC and the Board of Directors for discussion. We also assess and discuss risks related to all significant projects, new products or services, and policy changes.

Analyze and measure

We quantify and qualitatively assess the significant risks that our activities pose. BDC updates related tools and models, taking into consideration best practices in the financial services industry. We measure risks across the organization to ensure they reflect BDC's policies, corporate directives, standards and tolerance limits. Board members and senior managers use this information to understand BDC's risk profile and portfolio performance.

Define risk appetite

We articulate in written form, and communicate in qualitative statements and quantitative measures, BDC's risk appetite statement. It outlines the board's and management's vision for managing significant risks that BDC is willing to accept or wants to avoid in the execution of its strategy.

Control and mitigate

We set risk tolerance thresholds that reflect BDC's objectives and strategies. We also use policies and guidelines to codify our governance and risk management culture.

BDC uses the following components and activities to mitigate its risks:

- adequate and clear roles, responsibilities, processes, policies, corporate directives and procedures
- risk management functions and committees that provide oversight and monitoring

- risk mitigation activities, such as hedging, insurance risk management, business continuity planning, information technology recovery planning, and anti-fraud and anti-money laundering programs
- business quality reviews and internal audits to ensure that BDC is using appropriate and sound risk management practices (every quarter, the Internal Audit Department presents the results of these audits to the Audit Committee)

Monitor, disclose and report
We monitor activities affecting BDC's risk profile, material risk exposures and loss events, and act to align risk exposures with risk appetites.

Risk process owners monitor, disclose and report risks, with support and oversight from the Risk Management Committee and risk management functions. They prepare monthly or quarterly reports on all significant risks, and they meet through risk management and board committees to report and discuss the risks they manage.

Major Risk Categories

Strategic risk
Strategic risk is the risk that BDC will set inappropriate objectives, will adopt strategies based on inaccurate knowledge of the market or will not allocate enough resources to achieve its objectives.

Managing strategic risk
Our dedicated team annually updates our five-year Corporate Plan using a rigorous process. The plan reflects BDC's knowledge, which is based on its research capacity and on its relationships with knowledgeable stakeholders and more than 42,000 entrepreneurs. Senior management, the Board of Directors and our shareholder, the Government of Canada, approve the plan. BDC releases a public summary of the plan.

Capital adequacy
BDC ensures that it operates with an appropriate level of capital in accordance with the nature and level of risks taken. Our internal capital adequacy process evaluates capital adequacy on both a regulatory (Treasury Board guidelines) and an economic capital basis, and is used to establish capital thresholds in line with our risk appetite.

BDC allocates capital among lines of business based on needs and assessed risks in order to support new and existing corporate activities and to consider capital implications in its strategic and transactional decision making.

In keeping with industry practices, and the core tenets of sound financial and risk management, BDC also ensures that the level of capital is sufficient for BDC to remain financially sustainable during a recessionary scenario, using stress-testing analyses. BDC conducts enterprise-wide stress tests on its significant risks and portfolios to determine an appropriate level of capital needed to withstand a sustained economic downturn.

BDC's stress-testing framework seeks to ensure that we are adequately capitalized, given the risks we take, and supports the determination of limits that are used to manage the risk levels and capital requirements, in line with BDC's risk appetite.

Please refer to page 31 of the Annual Report and Note 22—*Capital Management* to the Consolidated Financial Statements for additional information on BDC capital management and adequacy.

Financial risk
BDC is exposed to the following financial risks: credit risk, market risk and liquidity risk. This section should be read in conjunction with Note 23—*Risk Management* to the Consolidated Financial Statements, which details BDC's financial risk management policies and measurements.

Credit risk
Credit risk is the direct or indirect risk of loss related to an investee, or of loss due to default by a borrower, a counterparty with whom BDC does business or an asset issuer.

Managing credit risk
The most important risk for BDC to manage is the credit risk related to its commercial term lending—the largest part of BDC's portfolio.

It is at the business centre level, with the support of credit risk adjudication, that we choose to take, mitigate or avoid risk on individual transactions. All of our managers are trained to assess overall credit risk. We base our decisions on our experience with similar clients, and we use policies, corporate directives, guidelines, business rules and risk assessment tools to help us make these decisions.

Our adjudication process includes assigning a borrower rating that reflects our estimate of the probability of default (PD) over the life of the loan. PD estimates are calibrated using a through-the-cycle approach. BDC uses internal risk classification and scoring systems that consider quantitative and qualitative criteria. Such criteria include an assessment of the borrower's financial strength, management quality, financial flexibility and competitive strength. The quantitative model output can be modified in some cases by expert judgement, as prescribed within our credit policies. Our internal risk classification is also used for portfolio risk management, risk limit setting, product pricing and the determination of economic capital.

The table below, based on the annual PD, maps our internal ratings to the ratings used by external ratings agencies.

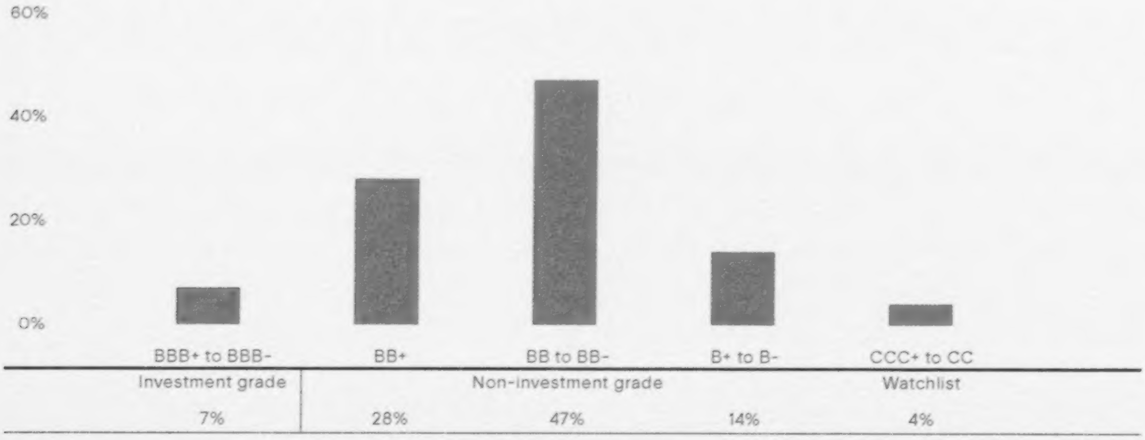
While BDC follows leading risk management practices, we generally assume more risk than a typical financial institution, due to our mandate and risk appetite. As a result, most of BDC's risk profile is non-investment grade. Please refer to Note 10—*Loans* to the Consolidated Financial Statements for further information on loans outstanding, by grade equivalent.

The most common method used to mitigate credit risk at the transaction level is to obtain quality collateral from borrowers. The obtaining of collateral cannot replace a rigorous assessment of a borrower's ability to meet its obligations, but it is an important complement. Collateral is not required in all cases; it depends on the type of loan granted. Please refer to Note 10—*Loans* for further information about principal collateral pledged as security and our level of security coverage.

BDC loans portfolio credit risk exposure

BDC rating	Annual PD	Grade equivalent	S&P equivalent	Moody's equivalent
0.5 - 1.0	0.1% - 0.3%	Investment grade	BBB+ to BBB-	Baa1 to Baa3
1.5 - 2.0	0.3% - 10.0%	Non-investment grade	BB+	Ba1
2.5 - 4.0			BB to BB-	Ba2 to Ba3
4.5 - 5.0			B+ to B-	B1 to B3
5.5	10.0% - 99.9%	Watchlist	CCC+ to CC	Caa1 to Ca
6.0 or higher	100%	Default	D	C

BDC loans performing portfolio classified by credit risk exposure
as at March 31, 2016 (as a percentage of gross performing financing portfolio)



In addition to managing credit risk on an individual, transactional basis, BDC manages it on a portfolio basis. Through monitoring, analysis and risk reports, portfolio risk management ensures that the overall risk in the portfolio is well diversified and consistent with BDC fulfilling its mandate while achieving its financial objectives, in line with its risk appetite.

Market risk

Market risk is the risk of financial loss that may arise from developments in marketplace dynamics or from our inability to forecast poor economic conditions quickly enough to mitigate losses in our portfolio. It represents market value fluctuations of BDC's assets and liabilities arising from volatility in interest rates, equity and foreign currency levels. For BDC, market risk also arises from volatile and unpredictable market events affecting the value of venture capital and venture capital action plan investments.

Managing market risk

BDC applies a sound asset/liability framework in its funding strategy and uses derivatives to manage and mitigate exposure to equity markets, foreign currencies and interest rates.

Liquidity risk

Liquidity risk is the risk that BDC could be unable to honour all of its contractual commitments as they become due.

Managing liquidity risk

To avoid business disruptions, BDC invests in highly liquid and high-quality securities with active secondary markets that it can sell to a wide range of counterparties.

Operational risk

Operational risk is the risk of losses from day-to-day errors caused by people, breakdowns in processes or systems, or events beyond our control, such as natural disasters. It includes but is not limited to the following four categories of risk: human capital, reputational, environmental, and legal and regulatory risks.

Operational risk is present in all daily operations at BDC. As such, all of BDC's policies and corporate directives help BDC identify, analyze, mitigate and monitor this risk. They govern the way BDC manages its human capital and processes, safeguards information, administers loans and investments, and carries out its business and corporate activities.

These activities are subject to internal audits. In addition, BDC has implemented an internal control framework based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and an internal control certification process for financial reporting and disclosure.

Human capital risk

BDC's long-term business success depends on its people. Its ability to attract, develop and engage the right people dictates its organizational capacity and enables it to fulfill its mission to help Canadian entrepreneurs succeed.

Managing human capital risk

To achieve optimal performance levels, we continuously assess the workforce factors and human resources practices that could affect performance. We develop strategies and plans to address these issues, including appropriate compensation, and mitigate human capital risks.

Learning and development are powerful means to prepare employees to achieve their full professional potential, as well as foster engagement. They also ensure BDC has the right qualified people it needs to achieve its strategic objectives and adapt to the dynamic, challenging business environment.

Reputational risk

Reputational risk is the risk that the activities or relationships of BDC or its employees will breach, or appear to breach, its mandate, culture or values, or applicable laws. That could damage BDC's reputation and affect its ability to do business.

BDC must meet Canadians' expectations in various ways, including the following:

> meeting the shareholder's expectation that BDC will support entrepreneurship
> carrying out its mandate effectively
> meeting legal and broadly held ethical standards
> refusing to support clients who fail to meet societal expectations of responsible behaviour
> doing business in an environmentally responsible manner

Managing reputational risk

Complying with BDC's ERM principles is the cornerstone of managing reputational risk.

BDC uses its corporate social responsibility framework with strategic purpose and rigour to manage reputational risk.

At a corporate level, BDC tracks the interests of key opinion leaders and stakeholders through dialogue and media monitoring, including social media monitoring.

BDC considers reputational risk when considering potential loans or investments. It screens the potential client and does due diligence for the potential transaction. Our procedures detect whether a potential client is involved in money laundering or terrorist activities. We also ensure he or she meets requirements related to transparency and disclosure, environmental performance, ethics, and credit eligibility.

Reputational risk management is part of our corporate risk policies and corporate directives, which include the following:

> the Board Code of Conduct
> the BDC Employee Code of Conduct, Ethics and Values (including the policy on the disclosure of wrongdoing, the anti-fraud corporate directive, and the anti-money laundering and anti-terrorist financing corporate directive)
> the policy on personal trading for employees and the policy on personal trading for directors
> the charter of client rights
> the policy and corporate directives on authorization limits and levels of authority
> the ERM policy
> the credit risk management policy
> the policy on the environment
> the eligibility corporate directive, which includes the United Nations Global Compact principles and the OECD Guidelines for Multinational Corporations
> the venture capital policy and corporate directive
> the disclosure policy and corporate directive
> the policy on the handling of referrals and enquiries from members of Parliament, senators, ministerial staff and BDC directors

Environmental risk

Environmental risk is the risk of damage to the environment or reputational harm caused when BDC's operations or financing fail to meet applicable laws or society's expectations of environmental stewardship. It is often embedded in other risks, such as credit, legal or regulatory risk.

Managing environmental risk

BDC has well-defined processes to identify, assess and mitigate environmental risk throughout the loan and investment lifecycle. These processes minimize direct losses due to environmental impairment of assets under BDC's charge and ensure that BDC deals only with clients who respect environmental regulations and best practices. They also ensure that BDC, in accordance with its responsibilities under the *Canadian Environmental Assessment Act*, does not fund projects that could significantly harm the environment.

Legal and regulatory risk

Legal and regulatory risk is the risk that our failure to comply with laws, regulations, public sector guidelines, industry codes, corporate governance or ethical standards will harm our business activities, earnings, regulatory relationships or reputation. It includes the effectiveness with which we prevent and handle litigation.

Managing legal and regulatory risk

BDC's Legal Affairs and Corporate Secretariat, through a legislative compliance framework, helps BDC employees and management comply with laws and regulations, and manages all litigation involving BDC. It gives the Board of Directors the information it needs to comply with laws and corporate governance, and to oversee BDC's management of its legal and regulatory risk.

BDC underwent a review of risk management and governance practices by the Office of the Superintendent of Financial Institutions (OSFI). OSFI is the prudential regulator and supervisor of federally regulated financial institutions in Canada. BDC is using results from the review to strengthen and enhance its risk management.

5

Accounting and Control Matters

Significant Accounting Policies

BDC's significant accounting policies are described in Note 3 to the Consolidated Financial Statements. Certain of these policies, as well as estimates and assumptions made in applying such policies, are considered critical, as they require significant judgements by management. BDC has established control procedures, including formal representations and certification by senior officers, to ensure that accounting policies, estimates and assumptions are reviewed and applied consistently from period to period.

Future Changes in Accounting Policies

The final version of IFRS 9, *Financial Instruments*, was published on July 24, 2014. IFRS 9 is effective for our fiscal year beginning on April 1, 2018. As a result, it has not been applied in preparing our fiscal 2016 Consolidated Financial Statements.

On May 28, 2014, the final version of IFRS 15, *Revenue from Contracts with Customers*, was published. The new standard is effective for our fiscal year beginning on April 1, 2018. As a result, it has not been applied in preparing our fiscal 2016 Consolidated Financial Statements.

On January 13, 2016, IFRS 16, *Leases*, was published. IFRS 16 is effective for our fiscal year beginning on April 1, 2019, and therefore has not been applied in preparing our fiscal 2016 Consolidated Financial Statements.

Information on IFRS 9, IFRS 15 and IFRS 16 is provided in Note 4 to the Consolidated Financial Statements.

Judgements, Estimates and Assumptions

BDC's significant accounting judgements, estimates and assumptions are described in Note 5 to the Consolidated Financial Statements. Critical accounting estimates that have the most significant effect on the amounts recognized in the Consolidated Financial Statements include those related to the allowance for credit losses, fair value of financial instruments, qualifying hedge relationships, impairment of available-for-sale assets, consolidation, defined benefit pension plans and other post-employment benefits.

Controls and Procedures

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as well as appropriate disclosure controls and procedures.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. However, because of its inherent limitations, internal control over financial reporting can only provide reasonable assurance and may not prevent or detect misstatements.

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management on a timely basis so that BDC can make appropriate decisions about public disclosure.

BDC has a certification regime to evaluate the design and effectiveness of our internal control over financial reporting and our disclosure controls and procedures. This certification regime is based on the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

BDC is using the updated Internal Control Framework dated May 14, 2013.

BDC has reached the following conclusion regarding the design and effectiveness of internal control over financial reporting:

As of March 31, 2016, certifying officers evaluated the design and effectiveness of internal control over financial reporting. Based on the results of the evaluation, they concluded that internal control over financial reporting is adequately designed and operates effectively to provide reasonable assurance of the reliability of financial reporting and of financial statements prepared in accordance with IFRS.

BDC has reached the following conclusion regarding the design and effectiveness of disclosure controls and procedures:

As of March 31, 2016, certifying officers evaluated the design and effectiveness of disclosure controls and procedures. Based on the results of the evaluation, they concluded that disclosure controls and procedures are adequately designed and operate effectively to provide reasonable assurance that material information disclosed is recorded, processed, summarized and presented within the requested timeframe, and that it is communicated to management on a timely basis for decision-making purposes.

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Management's Responsibility for Financial Information

The Consolidated Financial Statements of the Business Development Bank of Canada (BDC) were prepared and presented by management in accordance with International Financial Reporting Standards. The information contained therein normally includes amounts requiring estimations that have been made based upon informed judgement as to the expected results of current transactions and events. The financial information presented elsewhere in this Annual Report is consistent with the Consolidated Financial Statements.

In discharging its responsibility for the integrity, fairness and quality of the Consolidated Financial Statements and for the accounting systems from which they are derived, management maintains a system of internal control designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. BDC has a certification regime to evaluate the design and effectiveness of its internal control over financial reporting and its disclosure controls and procedures. This certification regime is based on the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Refer to the Management's Discussion and Analysis section of the Annual Report for additional information (p. 46).

The system of internal controls is supported by internal audit staff who conduct periodic reviews of different aspects of BDC's operations. In addition, the Chief Audit Executive, Internal Audit and the External Auditors have full and free access to the Audit Committee of the Board of Directors, which is responsible for overseeing and reviewing management's internal control and reporting responsibilities. The Board of Directors, through the Audit Committee, which is entirely composed of independent directors, is responsible for reviewing and approving the audited annual Consolidated Financial Statements.

BDC's independent auditors, Deloitte LLP, Chartered Professional Accountants, and the Auditor General of Canada have audited BDC's Consolidated Financial Statements and their report indicates the scope of their audit and their opinion on the Consolidated Financial Statements.

Michael Denham
President and Chief Executive Officer

Montreal, Canada
June 17, 2016

Paul Buron, CPA, CA
Executive Vice President
and Chief Financial and Risk Officer

Independent Auditors' Report

To the Minister of Innovation, Science and Economic Development

Report on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of the Business Development Bank of Canada, which comprise the consolidated statement of financial position as at 31 March 2016, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Business Development Bank of Canada as at 31 March 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements
As required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Business Development Bank of Canada and its wholly-owned subsidiary that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Business Development Bank of Canada Act*, the charter and by-laws of the Business Development Bank of Canada and its wholly-owned subsidiary, and the directives issued pursuant to section 89 of the *Financial Administration Act* described in Note 1 to the consolidated financial statements.

René Béliveau

René Béliveau, CPA auditor, CA
Principal
for the Auditor General of Canada

Deloitte LLP[1]

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[1] CPA auditor, CA, public accountancy permit No. A116129

17 June 2016
Montréal, Canada

Consolidated Statement of Financial Position

(in thousands of Canadian dollars)

	Notes	March 31, 2016	March 31, 2015
ASSETS			
Cash and cash equivalents	7	680,093	667,084
Derivative assets	8	51,687	53,322
Loans and investments			
Asset-backed securities	9	509,758	407,731
Loans	10	19,717,706	18,414,044
Subordinate financing investments	11	751,404	642,810
Venture capital investments	12	928,000	709,639
Venture capital action plan investments	13	137,668	47,643
Total loans and investments		22,044,536	20,221,867
Property and equipment	14	22,849	24,435
Intangible assets	15	38,446	48,961
Net defined benefit asset	19	53,995	100,429
Other assets	16	14,297	12,919
Total assets		22,905,903	21,129,017
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable and accrued liabilities	17	96,966	101,996
Derivative liabilities	8	4,077	7,515
Borrowings	18		
Short-term notes		16,848,041	15,435,747
Long-term notes		350,268	548,709
Total borrowings		17,198,309	15,984,456
Net defined benefit liability	19	217,996	219,664
Other liabilities	20	39,036	36,266
Total liabilities		17,556,384	16,349,897
Equity			
Share capital	21	2,288,400	2,138,400
Contributed surplus		27,778	27,778
Retained earnings		3,003,483	2,570,454
Accumulated other comprehensive income		3,812	7,934
Equity attributable to BDC's shareholder		5,323,473	4,744,566
Non-controlling interests		26,046	34,554
Total equity		5,349,519	4,779,120
Total liabilities and equity		22,905,903	21,129,017

Guarantees and contingent liabilities (Note 26)

Commitments (Note 27)

The accompanying notes are an integral part of these Consolidated Financial Statements.

Michael Calyniuk
Director
Chairperson, Audit Committee

Michael Denham
Director
President and Chief Executive Officer

Consolidated Statement of Income

For the year ended March 31 (in thousands of Canadian dollars)

	2016	2015
Interest income	1,091,897	1,070,441
Interest expense	75,556	127,166
Net interest income	1,016,341	943,275
Net realized gains (losses) on investments	(5,991)	(35,064)
Consulting revenue	16,402	17,044
Fee and other income	48,555	43,767
Net realized gains (losses) on other financial instruments	957	(5,285)
Net revenue	1,076,264	963,737
Provision for credit losses	(160,909)	(95,923)
Net change in unrealized appreciation (depreciation) of investments	86,020	37,217
Net unrealized foreign exchange gains (losses) on investments	8,305	27,974
Net unrealized gains (losses) on other financial instruments	3,513	(2,076)
Income before operating and administrative expenses	1,013,193	930,929
Salaries and benefits	331,096	305,180
Premises and equipment	38,817	37,434
Other expenses	105,549	97,625
Operating and administrative expenses	475,462	440,239
Net income	537,731	490,690
Net income attributable to:		
BDC's shareholder	535,448	490,516
Non-controlling interests	2,283	174
Net income	537,731	490,690

The accompanying notes are an integral part of these Consolidated Financial Statements.
Note 24 provides additional information on the Consolidated Statement of Income and Note 25 provides segmented information.

Consolidated Statement of Comprehensive Income

For the year ended March 31 (in thousands of Canadian dollars)

	2016	2015
Net income	537,731	490,690
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net income		
Net change in unrealized gains (losses) on available-for-sale assets	(2,990)	1,740
Net unrealized gains (losses) on cash flow hedges	(956)	1,155
Reclassification to net income of losses (gains) on cash flow hedges	(176)	(414)
Net change in unrealized gains (losses) on cash flow hedges	(1,132)	741
Total items that may be reclassified subsequently to net income	(4,122)	2,481
Items that will not be reclassified to net income		
Remeasurements of net defined benefit asset or liability	(39,531)	(32,728)
Other comprehensive income (loss)	(43,653)	(30,247)
Total comprehensive income	494,078	460,443
Total comprehensive income attributable to:		
BDC's shareholder	491,795	460,269
Non-controlling interests	2,283	174
Total comprehensive income	494,078	460,443

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

For the year ended March 31 (in thousands of Canadian dollars)

				Accumulated other comprehensive income (loss)					
	Share capital	Contributed surplus	Retained earnings	Available-for-sale assets	Cash flow hedges	Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance as at March 31, 2015	2,138,400	27,778	2,570,454	3,947	3,987	7,934	4,744,566	34,554	4,779,120
Total comprehensive income									
Net income			535,448				535,448	2,283	537,731
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on available-for-sale assets				(2,990)		(2,990)	(2,990)		(2,990)
Net change in unrealized gains (losses) on cash flow hedges					(1,132)	(1,132)	(1,132)		(1,132)
Remeasurements of net defined benefit asset or liability			(39,531)				(39,531)		(39,531)
Other comprehensive income (loss)	–	–	(39,531)	(2,990)	(1,132)	(4,122)	(43,653)	–	(43,653)
Total comprehensive income	–	–	495,917	(2,990)	(1,132)	(4,122)	491,795	2,283	494,078
Dividends on common shares			(62,888)				(62,888)		(62,888)
Distributions to non-controlling interests								(12,344)	(12,344)
Capital injections from non-controlling interests								1,553	1,553
Issuance of common shares	150,000						150,000		150,000
Transactions with owner, recorded directly in equity	150,000	–	(62,888)	–	–	–	87,112	(10,791)	76,321
Balance as at March 31, 2016	2,288,400	27,778	3,003,483	957	2,855	3,812	5,323,473	26,046	5,349,519

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity (continued)

For the year ended March 31 (in thousands of Canadian dollars)

				Accumulated other comprehensive income (loss)					
	Share capital	Contributed surplus	Retained earnings	Available-for-sale assets	Cash flow hedges	Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance as at March 31, 2014	2,138,400	27,778	2,167,279	2,207	3,246	5,453	4,338,910	51,139	4,390,049
Total comprehensive income									
Net income			490,516				490,516	174	490,690
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on available-for-sale assets				1,740		1,740	1,740		1,740
Net change in unrealized gains (losses) on cash flow hedges					741	741	741		741
Remeasurements of net defined benefit asset or liability			(32,728)				(32,728)		(32,728)
Other comprehensive income (loss)	-	-	(32,728)	1,740	741	2,481	(30,247)	-	(30,247)
Total comprehensive income	-	-	457,788	1,740	741	2,481	460,269	174	460,443
Dividends on common shares			(54,613)				(54,613)		(54,613)
Distributions to non-controlling interests								(20,163)	(20,163)
Capital injections from non-controlling interests								3,404	3,404
Transactions with owner, recorded directly in equity	-	-	(54,613)	-	-	-	(54,613)	(16,75[illegible]	(71,372)
Balance as at March 31, 2015	2,138,400	27,778	2,570,454	3,947	3,987	7,934	4,744,566	34,554	4,779,120

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

For the year ended March 31 (in thousands of Canadian dollars)

	2016	2015
Operating activities		
Net income	537,731	490,690
Adjustments to determine net cash flows		
Interest income	(1,091,897)	(1,070,441)
Interest expense	75,556	127,166
Net realized losses (gains) on investments	5,991	35,064
Provision for credit losses	160,909	95,923
Net change in unrealized depreciation (appreciation) on investments	(86,020)	(37,217)
Net unrealized foreign exchange losses (gains) on investments	(8,305)	(27,974)
Net unrealized losses (gains) on other financial instruments	(3,513)	2,076
Defined benefits funding below (in excess) of amounts expensed	5,235	(18,186)
Depreciation of property and equipment, and amortization of intangible assets	17,580	17,193
Loss on derecognition of property and equipment	2,387	–
Loss (gain) on sale of property and equipment	–	54
Other	(13,650)	(27,965)
Interest expense paid	(76,386)	(129,633)
Interest income received	1,063,294	1,046,060
Disbursements for loans	(4,587,299)	(4,225,955)
Repayments of loans	3,153,764	3,009,127
Changes in operating assets and liabilities		
Net change in accounts payable and accrued liabilities	(5,030)	(4,031)
Net change in other assets and other liabilities	1,392	(3,425)
Net cash flows provided (used) by operating activities	(848,261)	(721,474)
Investing activities		
Disbursements for asset-backed securities	(317,238)	(210,666)
Repayments and proceeds on sale of asset-backed securities	212,222	141,182
Disbursements for subordinate financing investments	(254,076)	(218,335)
Repayments of subordinate financing investments	146,023	139,376
Disbursements for venture capital investments	(232,169)	(190,004)
Proceeds on sale of venture capital investments	100,795	23,175
Disbursements for venture capital action plan investments	(86,367)	(46,165)
Proceeds on sale of venture capital action plan investments	229	100
Acquisition of property and equipment	(7,866)	(5,496)
Acquisition of intangible assets	–	(466)
Proceeds from sale of property and equipment	–	17
Net cash flows provided (used) by investing activities	(438,447)	(367,282)
Financing activities		
Net change in short-term notes	1,412,518	1,380,330
Issue of long-term notes	–	154,600
Repayment of long-term notes	(189,122)	(384,247)
Distributions to non-controlling interests	(12,344)	(20,163)
Capital injections from non-controlling interests	1,553	3,404
Issuance of common shares	150,000	–
Dividends paid on common shares	(62,888)	(54,613)
Net cash flows provided (used) by financing activities	1,299,717	1,079,311
Net increase (decrease) in cash and cash equivalents	13,009	(9,445)
Cash and cash equivalents at beginning of year	667,084	676,529
Cash and cash equivalents at end of year	680,093	667,084

The accompanying notes are an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2016 (in thousands of Canadian dollars)

1.

Act of Incorporation, Objectives and Operations of the Corporation

The Business Development Bank of Canada is a Crown corporation that was established by an Act of Parliament on December 20, 1974, as the Federal Business Development Bank and continued under its current name by an Act of Parliament that was enacted on July 13, 1995. The Business Development Bank of Canada is incorporated in Canada and wholly owned by the Government of Canada. The Corporation's head office is located at 5 Place Ville Marie, Suite 400, Montreal, Quebec, Canada.

The objectives of the Business Development Bank of Canada and its subsidiaries (together, BDC) are to promote and assist in the establishment and development of business enterprises in Canada, with a focus on small and medium-sized enterprises, by providing a range of complementary lending, investment and consulting services. BDC offers Canadian companies services tailored to meet their current needs while earning an appropriate return on equity, which is used to further BDC's activities.

BDC does not receive appropriations from the Government of Canada. To finance its objectives, BDC borrows funds from Her Majesty the Queen in Right of Canada acting through the Minister of Finance. Prior to April 21, 2008, BDC issued debt instruments, which were secured by the Government of Canada. The *Business Development Bank of Canada Act* (BDC Act) also allows the use of hybrid capital instruments to provide the capital required for its operations. Her Majesty the Queen in Right of Canada would not be liable for payment of amounts owing under such capital instruments, none of which were outstanding as at March 31, 2016, and March 31, 2015.

BDC is for all purposes an agent of Her Majesty the Queen in Right of Canada. BDC is also named in Part I of Schedule III to the *Financial Administration Act* (FAA) and is accountable for its affairs to Parliament through the Minister of Innovation, Science and Economic Development. Pursuant to section 89 of the FAA, BDC, together with a number of other Crown corporations, has to comply with a directive issued in 2008 to ensure that Crown corporations give due consideration to the personal integrity of those they lend to or provide benefits to, in accordance with the government's policy to improve the accountability and integrity of federal institutions. In fiscal 2009, BDC completed the implementation of the requirements of section 89 and confirms that the directive has been met since then.

Pursuant to section 89 of the FAA, BDC received a directive in December 2014 from the Governor General in Council (P.C. 2014-1378) requesting that BDC review its current pension plan and ensure that it remains affordable, financially sustainable and consistent with the terms of the Public Service Pension Plan. These changes are intended to ensure that pension plans of Crown corporations provide a 50:50 current service cost-sharing ratio between employee and employer for pension contributions, as well as to raise the normal age of retirement to 65 years. Consequently, to comply with this directive, BDC implemented modifications to its existing defined benefit pension plan to be phased in by December 31, 2017. Eligible employees hired before January 1, 2015, had a choice of three options: two options included some features of the old plan design and a third option offered a completely new benefit structure. Employees hired after December 31, 2014, are automatically enrolled in the third option.

1. Act of Incorporation, Objectives and Operations of the Corporation (continued)

Pursuant to section 89 of the FAA, BDC received a directive in July 2015 from the Governor General in Council (P.C. 2015-1109) requiring that BDC align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations. The directive also instructed BDC to report on the implementation of this directive in its next corporate plan. Consequently, to comply with this directive, BDC will implement modifications to its Bank Business Expense Corporate Directive in two phases. The first phase, which became effective on September 8, 2015, introduced per diem meal allowances, and guidance on providing meals and refreshments at internal pre-planned team meetings, training and other events, as well as the cessation of subsidized employee social events. Disclosure on BDC's web site of information on travel and hospitality expenses for the Chairman of the Board, the President and Chief Executive Officer, and each member of the Executive Team became effective on December 31, 2015. The second phase, which is expected to be implemented during fiscal 2017, addresses the pre-approval requirement for travel and events, and the maximum limits for the amount that can be spent on meals and refreshments when hosting clients and stakeholders or holding internal conferences with employees. BDC has also reported on the implementation of the directive in its 2016-17 to 2020-21 corporate plan.

2.

Basis of Preparation

Statement of compliance

BDC has prepared its Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRS). These Consolidated Financial Statements were approved for issue by the Board of Directors on June 17, 2016.

Basis of presentation and measurement

The Consolidated Financial Statements have been prepared on a historical cost basis, except for the following:

> available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss, and derivative financial instruments have been measured at fair value; and

> the net defined benefit asset or liability in respect of post-employment benefits has been recognized as the present value of the defined benefit obligation less the fair value of the plans' assets.

These Consolidated Financial Statements are presented in Canadian dollars, which is BDC's functional currency as well as the functional currency of its subsidiaries. Unless otherwise specified, the figures presented in the Consolidated Financial Statements are stated in thousands of Canadian dollars.

Basis of consolidation

BDC conducts business through a variety of entities, including a wholly owned subsidiary, and several investment funds and other entities that are considered to be subsidiaries for financial reporting purposes.

The Consolidated Financial Statements of BDC comprise the financial statements of the parent entity and the consolidated financial statements of the subsidiaries referred to above as of March 31, 2016, and March 31, 2015. The financial statements of the subsidiaries are prepared using uniform accounting policies and valuation methods for similar transactions.

2. Basis of Preparation (continued)

Subsidiaries

For financial reporting purposes, subsidiaries are defined as entities controlled by BDC. BDC controls an entity when it has power over the investee, it is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. Control is presumed when BDC directly or indirectly holds the majority of the voting rights. The existence and effect of potential voting rights are considered when assessing whether BDC controls another entity.

In instances where BDC does not hold a majority of the voting rights, further analysis is performed to determine whether or not BDC has control of the entity. BDC is deemed to have control when, according to the terms of the shareholder's and/or limited partnership agreements, it makes most of the decisions affecting relevant activities.

Subsidiaries are fully consolidated from the date that control begins until the date that control ceases. No subsidiary has been acquired or disposed of during the reporting periods. Intercompany transactions and balances are eliminated upon consolidation.

The following entities have been consolidated in BDC's Consolidated Financial Statements.

Entity	Principal activity	Country of incorporation and residence	Proportion of ownership and voting power held	Basis of control
BDC Capital Inc.	Holding company structure for investment activities	Canada	100%	Voting power
AlterInvest Investment Fund Inc.	Investments in subordinate financing	Canada	50%	Voting power and contractual agreements
AlterInvest Fund L.P.	Investments in subordinate financing	Canada	50%	Voting power and contractual agreements
AlterInvest II Fund L.P.	Investments in subordinate financing	Canada	50%	Voting power and contractual agreements
Go Capital L.P.	Investments in venture capital	Canada	20%	Voting power and contractual agreements

Go Capital L.P.

Although BDC owns less than half of Go Capital L.P. and holds less than half of the voting power, management has determined, based on the terms of the agreement under which Go Capital L.P. was established, that BDC controls this entity. As the general partner, BDC has the current ability to direct the relevant activities of Go Capital L.P. and has the power to affect the variable returns, to which BDC is exposed.

Go Capital L.P.'s year-end date is December 31, as agreed upon by the partners at the time this entity was established. Consequently, additional financial information regarding this entity is prepared for the interim period for the purposes of consolidation.

2. Basis of Preparation (continued)

AlterInvest II Fund L.P.

During fiscal 2014, having reached the end of their intended lives, AlterInvest Fund L.P. and AlterInvest Investment Fund Inc. began liquidating their investments. Those investments that were not reimbursed by their respective clients were transferred into AlterInvest II Fund L.P. As each partner has equal interest in all of the funds, their partnership interest in AlterInvest II Fund L.P. did not change as a result of these transactions. During fiscal 2015, all investments were fully liquidated, and these entities will be dissolved.

Non-controlling interests

Interests in the equity of subsidiaries not attributable to the parent entity are reported in consolidated equity as non-controlling interests. Net income and each component of other comprehensive income are attributed to BDC's shareholder and to non-controlling interests in accordance with their respective shareholdings, even if this results in the non-controlling interests having a deficit balance.

Associates

Associates are those entities in which BDC has significant influence, but not control, over the financial and operating policies. Subordinate financing and venture capital investments in associates that are held as part of BDC's investment portfolio by BDC Capital Inc. are carried in the Consolidated Statement of Financial Position at fair value. This treatment is permitted by International Accounting Standard (IAS) 28, *Investments in Associates*, which permits investments in an associate held by an entity that is a venture capital organization or other similar entity to elect to measure these investments at fair value through profit or loss in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

3.

Significant Accounting Policies

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all periods presented in these Consolidated Financial Statements and have been applied consistently by all entities consolidated by BDC.

Financial instruments

Recognition and measurement of financial instruments

Financial assets and financial liabilities are recognized when BDC becomes party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when the related contractual obligation is extinguished, discharged or cancelled, or when it expires.

Financial instruments are recognized and derecognized using settlement date accounting.

On initial recognition, financial instruments are measured at fair value. Fair value on initial recognition includes transaction costs directly attributable to the acquisition or issue of financial instruments, except for financial instruments carried at fair value through profit or loss, for which transaction costs are recognized in net income in the period when they are incurred.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Recognition and measurement of financial instruments (continued)

Financial instruments are measured in subsequent periods either at fair value or at amortized cost using the effective interest rate method, depending on the financial instrument classification.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to its carrying amount. When calculating the effective interest rate, BDC estimates future cash flows, considering all contractual terms of the financial instrument.

Classification of financial instruments

Fair value through profit or loss

Financial instruments carried at fair value through profit or loss include financial instruments that are either (i) classified as held-for-trading or (ii) designated as at fair value through profit or loss upon initial recognition if they meet certain conditions.

Financial instruments classified as held-for-trading

A financial instrument is classified as held-for-trading if:

> it is acquired or incurred principally for the purpose of selling or repurchasing instruments in the near term; or

> at initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Derivative financial instruments are also classified as held-for-trading unless they are designated as hedging instruments.

Financial instruments designated as at fair value through profit or loss

A financial instrument can be designated as at fair value through profit or loss in the following circumstances:

> the asset or liability is managed, evaluated and reported internally on a fair value basis;

> the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise; or

> the asset or liability contains an embedded derivative that is separable and significantly modifies the cash flows that would otherwise be required under the contract.

A description of the basis for each designation is set out in the major types of financial instruments section of this note.

Subsequent to initial recognition, financial instruments classified or designated as at fair value through profit or loss are measured at fair value with the variation of unrealized gains or losses being recognized in the Consolidated Statement of Income as:

> net change in unrealized appreciation or depreciation of investments, or net unrealized foreign exchange gains or losses on investments, when related to asset-backed securities, subordinate financing, venture capital investments and venture capital action plan investments; or

> net unrealized gains or losses on other financial instruments when related to derivatives and borrowings.

Gains and losses upon the sale, disposal or write-off of these financial instruments are included directly in the Consolidated Statement of Income and are reported as:

> net realized gains or losses on investments when related to asset-backed securities, subordinate financing, venture capital investments and venture capital action plan investments; or

> net realized gains or losses on other financial instruments when related to derivatives and borrowings.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Classification of financial instruments (continued)

Available-for-sale financial assets

Available-for-sale assets are non-derivative financial assets that are:

> intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity, or changes in interest rates, exchange rates or equity prices; and

> not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Subsequent to initial recognition, available-for-sale assets are measured at fair value, with unrealized gains and losses recorded in other comprehensive income (OCI) until the asset is derecognized, with the exception of impairment losses, which are recorded in the Consolidated Statement of Income during the period in which the asset is determined to have become impaired.

Upon disposal of available-for-sale assets, the accumulated fair value adjustments recognized in OCI are reclassified to the Consolidated Statement of Income and are reported as net realized gains or losses on investments.

Cash flow hedges

BDC designates certain derivatives held for risk management as cash flow hedges. BDC documents all hedging relationships and its risk management objectives, along with its strategy for carrying out the hedge transactions. BDC assesses whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flow of hedged items, both at inception and over the life of the hedge.

Subsequent to initial recognition, derivatives designated as cash flow hedges are measured at fair value. The effective portion of changes in fair value of these derivatives is recognized in OCI and accumulated other comprehensive income (AOCI), while changes related to the ineffective portion are recorded in the Consolidated Statement of Income as net unrealized gains or losses on other financial instruments. Amounts in AOCI are recycled to the Consolidated Statement of Income in the periods where the hedged items affect net income. They are recorded in the financial statement lines associated with the related hedged items.

If these hedging instruments expire, are sold or no longer meet the criteria for hedge accounting, the amounts previously recognized in OCI are reclassified to the Consolidated Statement of Income as net realized gains or losses on other financial instruments during the periods when the variability in the cash flows of the hedged item affects net income. However, if a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Consolidated Statement of Income under net realized gains or losses on other financial instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method.

Financial liabilities measured at amortized cost

Financial liabilities that are not carried at fair value through profit or loss fall into the financial liabilities category and are measured subsequently at amortized cost using the effective interest rate method.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Major types of financial instruments

Cash equivalents

Cash equivalents include short-term bank notes that, at the original acquisition date, have maturities of less than three months and are used to manage liquidity risk.

Cash equivalents have been classified as loans and receivables.

Asset-backed securities

The asset-backed securities (ABS) portfolio consists of investment-grade senior and subordinated notes issued by way of private placement.

Investment-grade senior ABS are classified as available-for-sale assets and subordinated ABS notes are designated as at fair value through profit or loss on the basis that they are reported to and evaluated by senior management on a fair value basis. ABS presented on the Consolidated Statement of Financial Position include accrued interest receivable.

The fair value of ABS is calculated using forecasted cash flows and an estimated yield curve that is derived from the Canadian government yield curve and ABS spread for comparable transactions. The result is adjusted to reflect the risk of the underlying assets and deal structure.

Impairment of asset-backed securities

At each reporting date, BDC reviews ABS classified as available-for-sale for possible impairments or reversals of previously recognized impairments. BDC determines that ABS are impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and when that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Refer to Note 5—*Significant Accounting Judgements, Estimates and Assumptions*, for more information regarding the criteria used to determine whether an impairment has occurred.

Impairment losses and reversals of impairment losses are recognized in the Consolidated Statement of Income during the period in which objective evidence of impairment or reversal of impairment is identified.

Loans

Loans are classified as loans and receivables. They are measured at amortized cost using the effective interest rate method, less allowance for credit losses. Loans presented on the Consolidated Statement of Financial Position include accrued interest receivable.

Allowance for credit losses

The allowance for credit losses is maintained at a level considered adequate to absorb the credit losses existing in the portfolio at the financial reporting date. Allowances for credit losses are established at both the individual and collective levels.

BDC reviews its loan portfolio on an individual asset basis to assess credit risk and determines whether there is any objective evidence of impairment for which a loss should be recognized in the Consolidated Statement of Income. For BDC, there is objective evidence of impairment when the interest or principal of the loan is in arrears for three consecutive months or more or if there is reason to believe that a portion of the principal or interest cannot be collected.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Major types of financial instruments (continued)
Loans (continued)
Allowance for credit losses (continued)
When a loan is deemed impaired, interest accrual recognition ceases and the carrying amount of the loan is reduced to the present value of its estimated future cash flows discounted using (i) the initial effective interest rate of the loan for fixed rate loans or (ii) the rate at time of impairment for floating rate loans. If cash flows cannot be reasonably determined, the estimated fair value of any underlying collateral is used, whether or not foreclosure is probable.

The carrying amounts of impaired loans are first reduced through the use of an allowance account, and then written off if and when all collection efforts have been exhausted and no further prospect of recovery is likely. The amounts of the initial impairment losses, as well as any subsequent increases or reversals of these impairment losses, are recognized in the provision for credit losses in the Consolidated Statement of Income.

Loans for which an individual allowance has not been established are then included in groups of assets having similar credit risk characteristics and collectively assessed for any impairment that has been incurred but not yet identified.

Refer to Note 5—*Significant Accounting Judgements, Estimates and Assumptions*, for more information regarding the criteria used to determine the amount of the allowance.

Subordinate financing, venture capital and venture capital action plan investments
Upon initial recognition, subordinate financing, venture capital and venture capital action plan (VCAP) investments are designated as at fair value through profit or loss on the basis that they are part of a portfolio that is reported to and evaluated by senior management on a fair value basis, in accordance with a documented investment and risk management strategy.

BDC's valuation process for fair value measurement of subordinate financing, venture capital and VCAP investments has been derived from the International Private Equity and Venture Capital Valuation Guidelines. Based on the type of investments being valued, BDC uses (i) market-based methodologies, such as the quoted share price or the price of recent similar investments; (ii) discounted earnings or cash flow approaches; or (iii) liquidation or asset-based methods. These fair values are updated at least twice a year by internal valuators and are then reviewed by a valuation committee, which includes an external member who is a chartered business valuator. VCAP includes fund-of-fund transactions that provide for certain other limited partners to receive a preferred return on the initial cost of their investment, later timing of cash calls and preference in the distributions. The impact of these terms and conditions is taken into account in the fair value calculation by applying an adjustment to the attributed net asset value of each fund.

Borrowings
Short-term notes are measured at amortized cost.

BDC has two types of long-term notes: unstructured and structured. Unstructured long-term notes are recorded at amortized cost. Structured notes are notes for which interest or principal, or both, are linked to fluctuations in currency rates, swap rates and other market references. These structured notes have been designated as at fair value through profit or loss, as they contain embedded derivatives that would otherwise need to be separated, given that they significantly modify the cash flows required under the host debt contract.

The fair value of structured notes is determined by using observable market data together with recognized valuation techniques. Observable market data are sourced from leading inter-dealer brokers and include interest rates, foreign exchange rates and other market references.

Interest accrued on borrowings is included in the carrying amount of both short- and long-term notes.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Major types of financial instruments (continued)

Derivatives

Derivative financial instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, stock market indices or other financial instrument measures. BDC acquires derivative financial instruments to manage exposures to interest, currency and other market risks. BDC does not hold derivatives for speculative or trading purposes. Derivatives are either designated as cash flow hedges or classified as held-for-trading.

All BDC derivatives are over-the-counter and are mainly composed of swaps and foreign exchange forwards. The fair value of swaps is determined using pricing models that take into account current market and contractual prices of the underlying instrument, as well as time value, the yield curve, or volatility factors underlying the position and embedded options. The fair value of foreign exchange forwards is calculated by discounting the notional amount using the yield curves of the respective currencies. Inputs to both these calculations are market-observable data sourced from leading inter-dealer brokers, together with industry-standard valuation models for estimating fair value.

Embedded derivatives that are not closely related to the host contract must be separated and classified as held-for-trading financial instruments, unless the hybrid instrument is designated as at fair value through profit or loss. As at March 31, 2016, and March 31, 2015, BDC had no embedded derivatives that needed to be separated from a host contract.

Interest income, interest expense and fee income

Interest income and expense for interest-bearing financial instruments are recognized in interest income and interest expense in the Consolidated Statement of Income using the effective interest rate method, with the exception of subordinate financing investments, for which interest income is recognized using the contractual rate of the instrument. Interest on impaired loans continues to be recognized based on the reduced carrying amount using the interest rate used to discount the future cash flows for the purposes of measuring the impairment loss.

Subordinate financing investments also bear non-interest returns, such as royalties and interest bonuses, which are recognized in fee and other income in the Consolidated Statement of Income when it is probable that they will be received and the amounts can be measured reliably.

Fees that are integral to originating or renegotiating a loan are deferred and recognized as interest income over the expected term of the loan using the effective interest rate method. All other fees are recognized in net income as the related services are performed.

Premiums and discounts on borrowings are amortized in interest expense over the life of the obligation using the effective interest rate.

Consulting revenue

BDC Advantage provides advisory services to entrepreneurs. Consulting revenues are recognized as revenue when the services are rendered.

Property and equipment and intangible assets

Property and equipment and intangible assets are carried at cost less accumulated depreciation, accumulated amortization and accumulated impairment losses, if any.

The cost of an item of property and equipment includes its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to operate in the manner intended by management.

3. Significant Accounting Policies (continued)

Property and equipment and intangible assets (continued)

Property and equipment are depreciated using the straight-line method over the estimated useful life of the asset, as follows:

	Estimated useful life	Recorded in Consolidated Statement of Income as
Computer and telecommunications equipment	4 years	Other expenses
Furniture, fixtures and equipment	10 years	Premises and equipment
Leasehold improvements	Lease term	Premises and equipment

Intangible assets primarily comprise systems and software applications, the cost of which includes the purchase price plus any costs incurred to prepare them for their intended internal use. The intangible assets' lives are finite and are amortized using the straight-line method over their estimated useful economic lives, which range from three to seven years. Costs related to projects in progress are not subject to amortization until the related intangible asset is available for use. The amortization expense is included in other expenses in the Consolidated Statement of Income.

The residual values, depreciation and amortization methods, as well as useful lives of items of property and equipment and intangible assets, are reviewed, and adjusted if appropriate, at least at each financial reporting date.

These assets are also reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Irrespective of whether there is any indication of impairment, an impairment test is also performed annually for projects in progress related to intangible assets. When impairment tests indicate that the carrying amount of an asset (or group of assets) is greater than its estimated recoverable amount, the carrying amount is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

Net defined benefit asset or liability

BDC maintains a registered defined benefit pension plan, supplemental defined benefit pension plans and other post-employment defined benefits (which include health, dental, critical illness and life insurance coverage) for eligible employees.

The net defined benefit asset or liability is the present value of the defined benefit obligation less the fair value of plan assets.

BDC's defined benefit obligation in respect of retirement benefit plans is calculated separately for each plan by estimating the amount of future benefits employees have earned in return for their services in the current and prior periods.

The defined benefit obligation is calculated for each plan using the projected unit credit method. In determining the present value of its defined benefit obligation, and the related current service cost and past service cost, BDC attributes the benefit to periods of service under the plan's benefit formula. The present value of the defined benefit obligation is calculated by discounting the estimated future cash outflows using interest rates of high-quality corporate and provincial bonds that have terms to maturity approximating the terms of the obligation.

BDC determines the net interest expense or income on the net defined benefit asset or liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual reporting period to both the defined benefit obligation and the plan assets. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognized immediately in profit or loss when the plan amendment or curtailment occurs.

Remeasurements, which include actuarial gains and losses, as well as differences between the return on plan assets and interest income on plan assets, are recognized immediately in OCI. Remeasurements recognized in OCI are reflected immediately in retained earnings and are not reclassified to net income. Current service costs, past service costs, gain or loss on curtailment, and net interest on the net defined benefit asset or liability are recognized in net income.

3. Significant Accounting Policies (continued)

Equity attributable to BDC's shareholder

Share capital represents the par value of common shares issued and in circulation. Contributed surplus represents the value of assets transferred to BDC by the shareholder without issuance of shares.

Unrealized gains and losses on financial instruments classified as available-for-sale assets are included in AOCI until such time as the financial instruments are derecognized or impaired, at which time these gains or losses are reclassified to net income. Unrealized gains and losses on derivative financial instruments designated as hedging instruments are included in AOCI until such time as the hedged forecasted cash flows are reclassified to net income.

Retained earnings include all current and prior periods' net income and remeasurements of net defined benefit asset or liability, net of dividends paid.

Translation of foreign currencies

Assets and liabilities denominated in foreign currencies, all of which are monetary, are translated into Canadian dollars at exchange rates prevailing at the reporting date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars using the exchange rate at the date of each transaction. Foreign exchange gains and losses are included in net income.

Segmented information

BDC has the following operating segments, which are based on differences in products and services: Financing, Growth & Transition Capital, Venture Capital, BDC Advantage, Securitization and Venture Capital Action Plan.

The operating segments are reported in a manner consistent with the way BDC presents and discloses information that is regularly reviewed by the senior management team and the Board of Directors in assessing performance.

All transactions between business segments are recognized on an arm's-length basis. Income and expenses directly associated with each segment are included in determining business segment performance.

4.

Future Accounting Changes

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards had been published by the International Accounting Standards Board (IASB) but were not yet effective and had not been adopted early by BDC. These standards include IFRS 9, *Financial Instruments*, IFRS 15, *Revenue from Contracts with Customers*, and IFRS 16, *Leases*, described below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on BDC's Consolidated Financial Statements.

IFRS 9, *Financial instruments*

On July 24, 2014, the IASB issued the final version of IFRS 9, *Financial Instruments*, bringing together the classification and measurement, impairment, and hedge accounting phases of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. It amends classification and measurement of financial assets, adds new requirements for the accounting of financial liabilities and for general hedge accounting, and introduces a new expected loss impairment model. The IASB is continuing to work on its macro hedge accounting project. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, and shall be applied retrospectively, subject to certain exceptions.

BDC is currently assessing the impact of the adoption of IFRS 9.

4. Future Accounting Changes (continued)

IFRS 15, *Revenue from Contracts with Customers*

On May 28, 2014, the IASB issued a new standard, IFRS 15, *Revenue from Contracts with Customers*, replacing IAS 18, *Revenue*. The new standard is effective for annual periods beginning on or after January 1, 2018. The core principle of the standard is that an entity will recognize revenue when it transfers promised goods or services to customers, in an amount that reflects the consideration to which the entity is expected to be entitled in exchange for those goods and services.

BDC is currently assessing the impact of the adoption of IFRS 15.

IFRS 16, *Leases*

On January 13, 2016, the IASB issued a new standard, IFRS 16, *Leases*, which supersedes IAS 17, *Leases* and related interpretations. The new standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The standard provides a single lessee accounting model requiring lessees to recognize assets and liabilities for all leases, unless the lease term is 12 months or less, or if the underlying asset has a low value. Lessors will continue classifying leases as operating or finance, since IFRS 16's approach to lessor accounting is substantially unchanged from IAS 17.

BDC is currently assessing the impact of the adoption of IFRS 16.

5.

Significant Accounting Judgements, Estimates and Assumptions

Preparation of the Consolidated Financial Statements as per IFRS requires management to make judgements and use estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Significant changes in the underlying assumptions could result in significant changes to these estimates. Consequently, management reviews these assumptions regularly. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected.

Information about the significant judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the Consolidated Financial Statements are summarized below.

5. Significant Accounting Judgements, Estimates and Assumptions (continued)

Estimates and assumptions

Allowance for credit losses
The allowance for credit losses on loans represents management's estimate of the losses incurred in the loan portfolio at the reporting date and is established at both the individual and collective asset levels.

BDC reviews its loans individually to assess whether an impairment loss should be recorded. The process requires BDC to make assumptions and judgements by carrying out certain activities, including assessing the impaired status and risk of a loan, and estimating future cash flows and collateral values.

Loans that have been assessed individually and found not to be impaired, and all other loans, are then collectively assessed for any impairment that has been incurred but not yet identified. In assessing collective impairment, BDC uses statistical modelling of historical portfolio trends, such as default rates and loss rates, adjusted to reflect management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling.

Changes in these assumptions, or the use of other reasonable judgements, can materially affect the allowance level. Refer to Note 10—*Loans*, for more information on the allowance for credit losses.

Fair value of financial instruments
Where the fair value of financial assets and financial liabilities recorded in the Consolidated Statement of Financial Position cannot be derived from active markets (i.e., from quoted market prices or dealer price quotations), it is determined using valuation techniques, including discounted cash flow models.

The inputs to these models, such as interest rate yield curves, equity prices and currency prices and yields, volatilities of underlying assumptions, and correlations between inputs, are taken from observable markets where possible. Where this is not feasible, a degree of judgement is required in establishing fair values.

These judgements include considerations of inputs such as the discount rate, the expected rate of return by level of risk and the weighted forecast of cash flows. Changes to these inputs could affect the reported fair value of financial instruments. Refer to Note 3—*Significant Accounting Policies*, for more information about the valuation techniques used for each type of financial instrument and to Note 6—*Classification and Fair Value of Financial Instruments*, for additional information on fair value hierarchy levels.

Qualifying hedge relationships
In designating financial instruments in qualifying hedge relationships, BDC has determined that it expects the hedges to be highly effective over the period of the hedging relationship. In accounting for derivatives as cash flow hedges, BDC has determined that the hedged cash flow exposure relates to highly probable future cash flows.

Net defined benefit asset or liability
The cost of defined benefit pension plans and other post-employment benefits, and the present value of the related obligations, are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates used to measure the obligations, expected future salary increases, expected retirement age, expected mortality rates, expected health care cost trends, expected inflation and expected future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Actual results will differ from results that are estimated based on assumptions.

Refer to Note 19—*Net Defined Benefit Asset or Liability*, for additional information about the key assumptions.

5. Significant Accounting Judgements, Estimates and Assumptions (continued)

Judgements

Impairment of available-for-sale assets
BDC determines that available-for-sale assets are impaired when there is objective evidence of impairment. Objective evidence that a financial asset or group of assets is impaired may include such events as the financial difficulty or probable bankruptcy or financial reorganization of the issuer, a default or adverse change in status or concession with respect to payments, measurable decreases in the estimated future cash flows from the assets, and a deterioration of correlated economic conditions. Since a combination of factors may cause an impairment, management judgement is required to determine if and when an impairment must be recognized.

Consolidation
A key judgement that has been used in the preparation of the Consolidated Financial Statements is that BDC has the power to control certain investment funds (refer to Note 2—*Basis of Preparation*, for additional information). BDC has assessed that it has the current ability to direct the funds' activities that most significantly affect their returns, and that BDC is exposed to these returns. Consequently, these funds have been fully consolidated rather than accounted for using the equity accounting approach.

6.

Classification and Fair Value of Financial Instruments

Classification of financial instruments

The following tables summarize the classification of BDC's financial instruments as at March 31, 2016, and March 31, 2015.

March 31, 2016

		Measured at fair value				Measured at amortized cost		
		FVTPL[1]						
	Note	Held-for-trading	Designated as at FVTPL	Available-for-sale	Cash flow hedges	Loans and receivables	Financial liabilities	Total
Financial assets								
Cash and cash equivalents	7					680,093		680,093
Derivative assets	8	48,963			2,724			51,687
Asset-backed securities	9		7,152	502,606				509,758
Loans	10					19,717,706		19,717,706
Subordinate financing investments	11		751,404					751,404
Venture capital investments	12		928,000					928,000
Venture capital action plan investments	13		137,668					137,668
Other assets[2]	16					9,350		9,350
Total financial assets		48,963	1,824,224	502,606	2,724	20,407,149	–	22,785,666
Financial liabilities								
Accounts payable and accrued liabilities	17						96,966	96,966
Derivative liabilities	8	4,068			9			4,077
Short-term notes	18						16,848,041	16,848,041
Long-term notes	18		251,916				98,352	350,268
Other liabilities[2]	20						28,908	28,908
Total financial liabilities		4,068	251,916	–	9	–	17,072,267	17,328,260

(1) Fair value through profit or loss.

(2) Certain items within the other assets and other liabilities categories on the Consolidated Statement of Financial Position are not considered to be financial instruments.

6. Classification and Fair Value of Financial Instruments (continued)

Classification of financial instruments (continued)

March 31, 2015

		Measured at fair value				Measured at amortized cost		
		FVTPL(1)						
	Note	Held-for-trading	Designated as at FVTPL	Available-for-sale	Cash flow hedges	Loans and receivables	Financial liabilities	Total
Financial assets								
Cash and cash equivalents	7					667,084		667,084
Derivative assets	8	49,666			3,656			53,322
Asset-backed securities	9		3,688	404,043				407,731
Loans	10					18,414,044		18,414,044
Subordinate financing investments	11		642,810					642,810
Venture capital investments	12		709,639					709,639
Venture capital action plan investments	13		47,643					47,643
Other assets(2)	16					8,200		8,200
Total financial assets		49,666	1,403,780	404,043	3,656	19,089,328	-	20,950,473
Financial liabilities								
Accounts payable and accrued liabilities	17						101,996	101,996
Derivative liabilities	8	7,515						7,515
Short-term notes	18						15,435,747	15,435,747
Long-term notes	18		304,453				244,256	548,709
Other liabilities(2)	20						27,568	27,568
Total financial liabilities		7,515	304,453	-	-	-	15,809,567	16,121,535

(1) Fair value through profit or loss.

(2) Certain items within the other assets and other liabilities categories on the Consolidated Statement of Financial Position are not considered to be financial instruments.

Fair value of financial instruments

The following table provides a comparison of the carrying and fair values of BDC's financial instruments that are not carried at fair value in the Consolidated Financial Statements and for which the carrying values are not reasonable approximations of their fair value.

	March 31, 2016			March 31, 2015		
	Fair value hierarchy level	Fair value	Carrying value	Fair value hierarchy level	Fair value	Carrying value
Financial assets classified as loans and receivables						
Loans	2	19,781,297	19,717,706	2	18,474,040	18,414,044
Financial liabilities classified as financial liabilities						
Short-term notes	1	16,847,836	16,848,041	1	15,431,869	15,435,747
Long-term notes	2	98,450	98,352	2	244,552	244,256

6. Classification and Fair Value of Financial Instruments (continued)

Fair value of financial instruments (continued)

Financial instruments carried at amortized cost

Loans classified as loans and receivables

The carrying value of performing floating-rate loans is a reasonable approximation of their fair value because the carrying value reflects changes in interest rates since the loan was originated. For performing fixed-rate loans, fair value is determined using a discounted cash flow calculation that uses market interest rates prevailing at the end of the period charged for similar new loans with corresponding remaining terms.

For impaired loans, the fair value is equal to the carrying value determined in accordance with the valuation methods described in Note 3—*Significant Accounting Policies*, under the heading *Allowance for credit losses*.

Short-term notes classified as financial liabilities

The fair value of short-term notes classified as financial liabilities is determined using a quoted market price.

Long-term notes classified as financial liabilities

The fair value of long-term notes classified as financial liabilities is determined using a discount cash flow calculation that uses market interest rates based on the remaining time to maturity.

Financial instruments measured at fair value

The assumptions and methods used to estimate the fair value of those financial assets and liabilities that are measured at fair value are disclosed in Note 3—*Significant Accounting Policies*.

All financial instruments measured at fair value must be categorized into one of three hierarchy levels for disclosure purposes. Each level is based on the observability of the inputs used to measure the fair value of assets and liabilities, and is defined below:

- Level 1—fair values based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities;
- Level 2—fair values based on inputs other than quoted prices in active markets that are either directly or indirectly observable; and
- Level 3—fair values based on valuation techniques with one or more significant unobservable market inputs.

There have been no transfers between levels 1 and 2 or between levels 2 and 3 in the reporting periods. BDC's policy is to recognize transfers between levels 1 and 3 when private investments become publicly traded or public investments become private investments during the reporting periods.

6. Classification and Fair Value of Financial Instruments (continued)

Fair value of financial instruments (continued)

Financial instruments measured at fair value (continued)
The following tables present financial instruments carried at fair value categorized by hierarchy levels.

				March 31, 2016
	Fair value measurements using			Total
	Level 1	Level 2	Level 3	fair value
Assets				
Derivative assets		51,687		51,687
Asset-backed securities		509,758		509,758
Subordinate financing investments	824		750,580	751,404
Venture capital investments	11,905		916,095	928,000
Venture capital action plan investments			137,668	137,668
	12,729	561,445	1,804,343	2,378,517
Liabilities				
Derivative liabilities		4,077		4,077
Long-term notes designated as at fair value through profit or loss		251,916		251,916
	–	255,993	–	255,993

				March 31, 2015
	Fair value measurements using			Total
	Level 1	Level 2	Level 3	fair value
Assets				
Derivative assets		53,322		53,322
Asset-backed securities		407,731		407,731
Subordinate financing investments	607		642,203	642,810
Venture capital investments	1,871		707,768	709,639
Venture capital action plan investments			47,643	47,643
	2,478	461,053	1,397,614	1,861,145
Liabilities				
Derivative liabilities		7,515		7,515
Long-term notes designated as at fair value through profit or loss		304,453		304,453
	–	311,968	–	311,968

6. Classification and Fair Value of Financial Instruments (continued)

Fair value of financial instruments (continued)

Financial instruments measured at fair value (continued)
The following tables present the changes in fair value measurement for financial instruments included in level 3 of the fair value hierarchy.

The procedures and valuation techniques used to determine the fair values of subordinate financing, venture capital and venture capital action plan investments included in level 3 are described in Note 3—*Significant Accounting Policies*. These valuation techniques draw upon diverse unobservable inputs, none of which, with the exception of the risk-free interest rate, is individually significant enough to have a material impact on BDC's net earnings if it varied within reasonable possible ranges. For subordinate financing investments, the impact of a 1% variation in the risk-free rate would result in a gain or loss of $8.9 million in the current period and an equivalent change in retained earnings ($9.8 million in 2015). Venture capital and venture capital action plan investments are not risk-free rate sensitive.

				March 31, 2016
	Subordinate financing investments	Venture capital investments	Venture capital action plan investments	Total
Fair value as at April 1, 2015	642,203	707,768	47,643	1,397,614
Net realized gains (losses) on investments	394	(6,545)	–	(6,151)
Net change in unrealized appreciation (depreciation) of investments	258	82,792	3,958	87,008
Net unrealized foreign exchange gains (losses) on investments	–	8,258	(71)	8,187
Disbursements for investments	254,076	228,915	86,367	569,358
Repayments of investments and other	(146,351)	(95,478)	(229)	(242,058)
Transfers from level 3 to level 1	–	(9,615)	–	(9,615)
Fair value as at March 31, 2016	750,580	916,095	137,668	1,804,343

				March 31, 2015
	Subordinate financing investments	Venture capital investments	Venture capital action plan investments	Total
Fair value as at April 1, 2014	575,993	489,038	5,169	1,070,200
Net realized gains (losses) on investments	(23,010)	(8,873)	-	(31,883)
Net change in unrealized appreciation (depreciation) of investments	9,600	30,118	(3,591)	36,127
Net unrealized foreign exchange gains (losses) on investments	-	27,737	-	27,737
Disbursements for investments	218,335	190,004	46,165	454,504
Repayments of investments and other	(138,715)	(16,385)	(100)	(155,200)
Transfers from level 3 to level 1	-	(3,871)	-	(3,871)
Fair value as at March 31, 2015	642,203	707,768	47,643	1,397,614

6. Classification and Fair Value of Financial Instruments (continued)

Fair value of financial instruments (continued)

Financial instruments measured at fair value (continued)

The following table presents total gains or losses for financial instruments included in level 3 that can be attributable to assets held at the end of the reporting periods.

	2016	2015
Net realized gains (losses) on investments	1,545	(2,271)
Net change in unrealized appreciation (depreciation) of investments	80,815	28,230
Net unrealized foreign exchange gains (losses) on investments	8,098	27,784
Total gains (losses) related to level 3 assets still held at the end of the reporting period	90,458	53,743

7.

Cash and Cash Equivalents

As at March 31, 2016, and March 31, 2015, there are no restrictions on cash and cash equivalents. Cash and cash equivalents include the following components.

	March 31, 2016	March 31, 2015
Cash	30,453	10,576
Short-term bank notes	649,640	656,508
Cash and cash equivalents	680,093	667,084

8.

Derivative Financial Instruments

In compliance with BDC's treasury risk policy, BDC uses the following derivative financial instruments to mitigate its foreign exchange rate risk, as well as its interest rate risk. BDC's policy is not to use derivative financial instruments for speculative purposes. BDC enters into master netting agreements with counterparties but does not proceed with netting financial assets and liabilities.

Swaps

Swaps are contractual obligations to exchange a series of cash flows on a specific notional amount for a predetermined period. The various swap agreements that BDC enters into are as follows:

- *interest rate swaps*, which involve exchange of fixed- and floating-rate interest payments; and
- *cross-currency interest rate swaps*, which involve the exchange of both interest and notional amounts in two different currencies.

The main risk associated with these instruments is related to movements in interest rates and foreign currencies.

Forwards

Forwards are contractual agreements to either buy or sell currencies or financial instruments at specified prices and dates in the future. They are customized contracts transacted in the over-the-counter market.

The main risks associated with these instruments arise from the possible inability of over-the-counter counterparties to meet the terms of the contracts, and from movements in interest rates and foreign exchange rates.

Foreign exchange rate

BDC economically hedges its long-term borrowings with cross-currency interest-rate swaps, and its loans and subordinate financing investments with foreign exchange forward contracts. Venture capital investments are economically hedged following the occurrence of a liquidity event. These instruments have been classified as held-for-trading.

8. Derivative Financial Instruments (continued)

Interest rate risk

BDC enters into interest rate swaps to hedge the financial impact of future interest rate fluctuations in relation to changes in the loan portfolio mix. These contracts have been designated as cash flow hedges. There was no significant ineffectiveness of cash flow hedges in 2016 and 2015.

BDC also uses derivative financial instruments as an economic hedge for its structured notes. These instruments include interest rate swaps and cross-currency interest rate swaps. These instruments have been classified as held-for-trading.

The following tables provide the fair value of BDC's derivatives portfolio as represented by gross assets and gross liabilities values.

			March 31, 2016
	Gross assets	Gross liabilities	Net amount
Hedging			
Interest rate swap contracts	2,724	9	2,715
Total hedging	2,724	9	2,715
Held-for-trading			
Interest rate swap contracts	39,482	3,833	35,649
Cross-currency interest rate swap contracts	2,134	-	2,134
Foreign exchange forward contracts	7,347	235	7,112
Total held-for-trading	48,963	4,068	44,895
Total	51,687	4,077	47,610

			March 31, 2015
	Gross assets	Gross liabilities	Net amount
Hedging			
Interest rate swap contracts	3,656	-	3,656
Total hedging	3,656	-	3,656
Held-for-trading			
Interest rate swap contracts	48,423	5,793	42,630
Cross-currency interest rate swap contracts	824	228	596
Foreign exchange forward contracts	419	1,494	(1,075)
Total held-for-trading	49,666	7,515	42,151
Total	53,322	7,515	45,807

8. Derivative Financial Instruments (continued)

The following table summarizes the notional amount, by term to maturity or repricing date, of derivative instruments. Notional amounts, which are provided solely for comparative purposes, are not recorded as assets or liabilities on the Consolidated Statement of Financial Position, as they represent the face amount of the contract to which a rate or a price is applied to determine the amount of cash flows to be exchanged.

	Term to maturity or repricing				**March 31, 2016**	March 31, 2015
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	Notional amount	Notional amount
Hedging						
Interest rate swap contracts						
CAD payable-fixed	-	150,000	-	-	**150,000**	-
% payable-fixed	-	*0.84*	-	-		
CAD receivable-fixed	55,000	85,000	135,000	-	**275,000**	348,000
% receivable-fixed	*1.31*	*1.00*	*1.35*	-		
Total hedging	55,000	235,000	135,000	-	**425,000**	348,000
Held-for-trading						
Interest rate swap contracts						
CAD payable-fixed	-	60,000	-	-	**60,000**	60,000
% payable-fixed	-	*4.17*	-	-		
CAD receivable-fixed	-	-	-	195,988	**195,988**	239,510
% receivable-fixed	-	-	-	*4.62*		
	-	60,000	-	195,988	**255,988**	299,510
Cross-currency interest rate swap contracts	-	10,875	7,254	-	**18,129**	18,129
	-	70,875	7,254	195,988	**274,117**	317,639
Foreign exchange forward contracts	254,728	-	-	-	**254,728**	190,664
Total held-for-trading	254,728	70,875	7,254	195,988	**528,845**	508,303
Total	309,728	305,875	142,254	195,988	**953,845**	856,303

The rates represent the weighted average interest rates that BDC has contracted to pay or to receive up to maturity or repricing. The floating side for almost all of the Canadian dollar swap contracts is based on one month Canadian bankers' acceptance rates. All amounts in foreign currencies are converted into the Canadian dollar equivalent using the rate of exchange of the derivative contracts.

9.

Asset-Backed Securities

The following table summarizes asset-backed securities by classification of financial instruments. As at March 31, 2016, $3,389 in asset-backed securities had maturities of less than five years (none as at March 31, 2015) and $506,369 had maturities over five years ($407,731 as at March 31, 2015). The asset-backed securities may be redeemed by the issuing trust at par depending on the terms of the securitization deal if the balance of the underlying assets or, in some cases, the balance of the notes, amortizes below 10% of the original balance at issuance. No asset-backed securities were impaired as at March 31, 2016, and 2015. Refer to Note 23–*Risk Management*, for additional information on credit risk associated with the asset-backed securities portfolio.

	March 31, 2016	March 31, 2015
Available-for-sale		
Principal amount	501,649	400,096
Cumulative fair value appreciation (depreciation)	957	3,947
Carrying value	502,606	404,043
Yield	1.77%	2.02%
Fair value through profit or loss		
Principal amount	7,105	3,609
Cumulative fair value appreciation (depreciation)	47	79
Carrying value	7,152	3,688
Yield	6.95%	7.65%
Asset-backed securities	509,758	407,731

10.

Loans

The following tables summarize loans outstanding by contractual maturity date.

								2016
	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Collective allowance	Individual allowance	Total allowance	Total net amount
Performing	220,222	2,292,473	17,256,082	19,768,777	(390,000)	–	(390,000)	19,378,777
Impaired	19,837	74,442	460,374	554,653	–	(215,724)	(215,724)	338,929
Loans as at March 31, 2016	240,059	2,366,915	17,716,456	20,323,430	(390,000)	(215,724)	(605,724)	19,717,706

								2015
	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Collective allowance	Individual allowance	Total allowance	Total net amount
Performing	186,646	2,078,792	16,187,973	18,453,411	(350,000)	–	(350,000)	18,103,411
Impaired	7,856	62,270	420,430	490,556	–	(179,923)	(179,923)	310,633
Loans as at March 31, 2015	194,502	2,141,062	16,608,403	18,943,967	(350,000)	(179,923)	(529,923)	18,414,044

10. Loans (continued)

Impaired loans

	March 31, 2016	March 31, 2015
Impaired at beginning of year	490,556	475,949
Downgraded	431,914	392,313
Upgraded	(88,942)	(87,493)
Write-offs	(81,127)	(71,983)
Liquidation and other	(197,748)	(218,230)
Balance at end of year	554,653	490,556

Allowance for credit losses

	March 31, 2016	March 31, 2015
Balance at beginning of year	529,923	508,250
Write-offs	(81,127)	(71,983)
Effect of discounting	(13,395)	(12,788)
Recoveries and other	9,414	10,521
	444,815	434,000
Provision for credit losses	160,909	95,923
Balance at end of year	605,724	529,923

Credit risk

The principal collaterals pledged as security if a loan defaults and other credit enhancements for loans include (i) various security on assets; (ii) personal and corporate guarantees; (iii) letters of credit; (iv) assignments of life insurance; (v) assignments or hypothec of third-party loans; and (vi) assignments of lease.

As at March 31, 2016, $26.2 million ($28.4 million as at March 31, 2015) of the impaired loans was secured by assets that BDC had the power to sell in order to satisfy borrower commitments. BDC's policy is to have these assets sold when other avenues of resolution have been exhausted.

The following table summarizes performing loans outstanding by client credit risk exposure based on BDC classification.

BDC rating	Grade equivalent	March 31, 2016		March 31, 2015	
0.5 to 1.0	Investment grade	1,365,463	7%	1,358,539	7%
1.5 to 2.0	Non-investment grade	5,552,109	28%	4,732,851	26%
2.5 to 4.0		9,350,134	47%	9,080,623	49%
4.5 to 5.0		2,731,331	14%	2,556,838	14%
5.5	Watchlist	769,740	4%	724,560	4%
Performing loans outstanding		19,768,777	100%	18,453,411	100%

The following table summarizes performing loans outstanding, classified by secured risk exposure coverage.

Secured risk exposure	March 31, 2016		March 31, 2015	
Secured financing(1)	15,205,053	77%	14,557,282	79%
Partially secured financing(2)	2,027,749	10%	1,852,881	10%
Leverage financing(3)	2,535,975	13%	2,043,248	11%
Performing loans outstanding	19,768,777	100%	18,453,411	100%

(1) % of security shortfall at authorization is less than 30%.
(2) % of security shortfall at authorization is between 31% and 60%.
(3) % of security shortfall at authorization is over 60%.

10. Loans (continued)

Credit risk (continued)

BDC considers a loan past due when a client has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because they are either less than three months past due or collection efforts are reasonably expected to result in repayment.

Loans past due but not impaired	Within 1 month	1 to 3 months	Over 3 months	Total
As at March 31, 2016	135,723	29,251	8,889	173,863
As at March 31, 2015	90,282	48,802	29,275	168,359

Concentrations of the total loans outstanding, by province and territory and by industry sector, are set out in the tables below. The largest concentration in one individual or closely related group of clients was less than 1% as at March 31, 2016, and March 31, 2015.

Geographic distribution	March 31, 2016	March 31, 2015
Newfoundland and Labrador	849,591	790,243
Prince Edward Island	56,456	53,344
Nova Scotia	528,651	490,936
New Brunswick	467,311	469,044
Quebec	6,496,866	6,243,857
Ontario	5,242,987	4,812,779
Manitoba	653,069	600,946
Saskatchewan	701,224	633,566
Alberta	3,000,998	2,644,465
British Columbia	2,200,621	2,080,226
Yukon	95,400	97,397
Northwest Territories and Nunavut	30,256	27,144
Total loans outstanding	20,323,430	18,943,967

Industry sector[1]	March 31, 2016	March 31, 2015
Manufacturing	4,503,108	4,186,626
Wholesale and retail trade	4,109,247	3,843,068
Service industries	2,681,948	2,455,093
Tourism	2,562,826	2,491,385
Commercial properties	2,166,365	2,086,476
Construction	1,714,697	1,560,146
Transportation and storage	1,221,123	1,186,918
Resources	811,028	680,730
Other	553,088	453,525
Total loans outstanding	20,323,430	18,943,967

(1) Certain comparative figures were adjusted to reflect 2016 industry groupings.

11.

Subordinate Financing Investments

BDC maintains a medium- to high-risk portfolio of subordinate financing investments. The following table summarizes outstanding subordinate financing investments by their contractual maturity date.

	Within 1 year	1 to 5 years	Over 5 years	Total cost	Total fair value
As at March 31, 2016	76,089	565,188	124,772	766,049	751,404
As at March 31, 2015	80,350	480,167	97,460	657,977	642,810

Subordinate financing investments have subordinate status in relationship to the other debt issued by a company. The principal collaterals pledged as security and other credit enhancements related to subordinate financing investments include (i) various security on assets; (ii) personal and corporate guarantees; (iii) assignments of life insurance; and (iv) postponements of third-party loans. When possible, BDC security also includes a first-rank lien on the intellectual property of the borrower.

The concentrations of subordinate financing investments by geographic and industry distribution are set out in the tables below. The largest concentration in one individual or closely related group of clients as at March 31, 2016, was 2.4% of total subordinate financing investments at cost (2.3% as at March 31, 2015). Subordinate financing's portfolio is composed primarily of debentures.

		March 31, 2016		March 31, 2015
Geographic distribution	Fair value	Cost	Fair value	Cost
Newfoundland and Labrador	5,252	5,773	5,063	3,831
Nova Scotia	16,963	17,108	15,888	16,592
New Brunswick	29,135	25,426	22,352	20,355
Quebec	302,632	319,494	253,105	269,482
Ontario	262,383	260,106	212,234	212,103
Manitoba	14,097	7,260	11,617	8,270
Saskatchewan	14,957	14,529	6,462	5,485
Alberta	72,650	80,877	88,517	92,540
British Columbia	29,776	31,715	23,855	25,470
Yukon	2,548	2,656	2,613	2,744
Northwest Territories and Nunavut	1,011	1,105	1,104	1,105
Subordinate financing investments	751,404	766,049	642,810	657,977

		March 31, 2016		March 31, 2015
Industry sector[1]	Fair value	Cost	Fair value	Cost
Manufacturing	259,348	267,869	223,059	225,962
Service industries	170,955	179,235	150,598	157,469
Wholesale and retail trade	133,656	135,052	107,962	108,233
Construction	68,130	60,652	51,697	47,244
Resources	45,820	53,125	48,732	52,293
Information industries	28,237	28,473	21,526	24,068
Transportation and storage	10,350	10,850	11,071	11,494
Tourism	5,229	5,866	9,756	10,111
Educational services	2,796	2,728	4,038	3,922
Other	26,883	22,199	14,371	17,181
Subordinate financing investments	751,404	766,049	642,810	657,977

(1) Certain comparative figures were adjusted to reflect 2016 industry groupings.

12.

Venture Capital Investments

BDC maintains a high-risk portfolio of venture capital investments that is focused on early-stage and fast-growing technology companies having promising positions in their respective marketplaces and strong growth potential. Venture capital investments, which are held for a longer term, are non-current assets. The concentrations by industry sector are listed below. The largest single investment within these sectors as at March 31, 2016, was 6.8% of total venture capital investments at cost (7.4% as at March 31, 2015).

	March 31, 2016		March 31, 2015	
Industry sector	Fair value	Cost	Fair value	Cost
Information technology	200,706	188,322	160,551	151,208
Biotechnology and pharmacology	140,414	102,042	73,709	81,218
Electronics	81,986	92,041	89,219	91,774
Communications	43,887	43,484	32,241	33,664
Medical and health	40,763	52,739	40,121	45,522
Energy	23,457	26,073	16,626	20,635
Industrial	12,135	17,785	12,673	18,331
Other	9,506	8,495	3,447	2,512
Total direct investments	552,854	530,981	428,589	444,864
Funds	375,146	287,271	281,050	245,021
Venture capital investments	928,000	818,252	709,639	689,885

The following table presents a summary of the venture capital portfolio, by type of investment.

	March 31, 2016		March 31, 2015	
Investment type	Fair value	Cost	Fair value	Cost
Common shares	60,298	80,567	40,061	70,027
Preferred shares	438,341	394,025	336,898	321,239
Debentures	54,215	56,389	51,630	53,598
Total direct investments	552,854	530,981	428,589	444,864
Funds	375,146	287,271	281,050	245,021
Venture capital investments	928,000	818,252	709,639	689,885

13.

Venture Capital Action Plan Investments

Venture Capital Action Plan is a federal government initiative to invest $400 million to increase private sector venture capital financing for high-potential, innovative Canadian businesses.

Venture Capital Action Plan invests primarily in early-stage and mid-stage venture capital funds, and directly in companies across Canada. Venture Capital Action Plan supports the creation of large private sector-led funds of funds and also assists existing high-performing funds in partnership with institutional investors, corporate strategic investors and interested provinces.

As at March 31, 2016, the fair value of venture capital action plan investments stood at $137,668 ($47,643 as at March 31, 2015), and their cost was $137,905 ($51,767 as at March 31, 2015).

14.

Property and Equipment

				2016
	Computer and telecommunications equipment	Furniture, fixtures and equipment	Leasehold improvements	Total
Cost				
Balance as at March 31, 2015	25,641	18,402	32,623	76,666
Additions	2,388	2,513	2,965	7,866
Derecognition[1]	(10,502)	(1,647)	(4,402)	(16,551)
Balance as at March 31, 2016	17,527	19,268	31,186	67,981
Accumulated depreciation				
Balance as at March 31, 2015	16,819	10,676	24,736	52,231
Derecognition[1]	(8,115)	(1,647)	(4,402)	(14,164)
Depreciation	3,862	1,356	1,847	7,065
Balance as at March 31, 2016	12,566	10,385	22,181	45,132
Property and equipment as at March 31, 2016	4,961	8,883	9,005	22,849

(1) Derecognition of $16.6 million includes $11.6 million of fully depreciated property and equipment that are no longer in use and $5.0 million derecognition of computer equipment, resulting in a loss of $2.4 million recorded in other expenses under the line item "other expenses."

				2015
	Computer and telecommunications equipment	Furniture, fixtures and equipment	Leasehold improvements	Total
Cost				
Balance as at March 31, 2014	33,812	23,793	44,092	101,697
Additions	2,695	1,242	1,559	5,496
Derecognition[2]	(10,866)	(6,440)	(13,028)	(30,334)
Disposals	–	(193)	–	(193)
Balance as at March 31, 2015	25,641	18,402	32,623	76,666
Accumulated depreciation				
Balance as at March 31, 2014	23,302	16,087	35,890	75,279
Derecognition[2]	(10,866)	(6,440)	(13,028)	(30,334)
Disposals	–	(122)	–	(122)
Depreciation	4,383	1,151	1,874	7,408
Balance as at March 31, 2015	16,819	10,676	24,736	52,231
Property and equipment as at March 31, 2015	8,822	7,726	7,887	24,435

(2) Derecognition of $30.3 million relates to fully depreciated property and equipment that are no longer in use.

No property and equipment were impaired as at March 31, 2016 and 2015.

15.

Intangible Assets

			2016
	Acquired systems and software applications	Projects in progress	Total
Cost			
Balance as at March 31, 2015	98,188	–	98,188
Derecognition[1]	(2,158)	–	(2,158)
Balance as at March 31, 2016	96,030	–	96,030
Accumulated amortization			
Balance as at March 31, 2015	49,227	–	49,227
Derecognition[1]	(2,158)	–	(2,158)
Amortization	10,515	–	10,515
Balance as at March 31, 2016	57,584	–	57,584
Intangible assets as at March 31, 2016	38,446	–	38,446

(1) Derecognition of $2.2 million relates to fully amortized intangible assets no longer in use.

			2015
	Acquired systems and software applications	Projects in progress	Total
Cost			
Balance as at March 31, 2014	65,625	45,023	110,648
Additions, separately acquired	–	466	466
Derecognition[2]	(12,926)	–	(12,926)
Available for use	45,489	(45,489)	–
Balance as at March 31, 2015	98,188	–	98,188
Accumulated amortization			
Balance as at March 31, 2014	52,368	–	52,368
Derecognition[2]	(12,926)	–	(12,926)
Amortization	9,785	–	9,785
Balance as at March 31, 2015	49,227	–	49,227
Intangible assets as at March 31, 2015	48,961	–	48,961

(2) Derecognition of $12.9 million relates to fully amortized intangible assets no longer in use.

16.

Other Assets

	March 31, 2016	March 31, 2015
Financial instruments		
Interest receivable on derivatives	1,407	1,742
Accounts receivable from consulting clients	1,583	889
Other	6,360	5,569
	9,350	8,200
Prepaids	4,947	4,719
Other assets	14,297	12,919

17.

Accounts Payable and Accrued Liabilities

	March 31, 2016	March 31, 2015
Current		
Salaries and benefits payable	44,912	48,115
Accounts payable	2,007	2,850
Other	17,791	16,544
	64,710	67,509
Long-term accrued liabilities	32,256	34,487
Accounts payable and accrued liabilities	96,966	101,996

18.

Borrowings

The table below presents the outstanding short-term notes.

				March 31, 2016		March 31, 2015
Maturity date	Effective rate	Currency	Principal amount[1]	Carrying value	Principal amount[1]	Carrying value
Short-term notes						
2016	0.51% - 0.60%	CAD			15,432,000	15,435,363
	0.00%	USD			303	384
2017	0.42% - 0.44%	CAD	16,844,000	16,847,175		
	0.13%	USD	667	866		
Total short-term notes				16,848,041		15,435,747

(1) The principal amount is presented in the original currency.

18. Borrowings (continued)

The table below presents the outstanding long-term notes by maturity. Some long-term notes may be redeemable. As at March 31, 2016, long-term notes of $4,840 were redeemable prior to maturity ($4,234 as at March 31, 2015).

					March 31, 2016		March 31, 2015
Maturity date	2016 Effective rate (1)	2015 Effective rate (1)	Currency	Principal amount (2)	Carrying value	Principal amount (2)	Carrying value
Long-term notes/ financial liabilities							
2016		0.98% - 1.16%	CAD			145,600	145,934
2017	0.45% - 1.12%	0.45% - 1.12%	CAD	92,500	92,746	92,500	92,722
2018	0.55%	0.55%	CAD	5,600	5,606	5,600	5,600
					98,352		244,256
Long-term notes/ designated as at fair value through profit or loss							
2016		0.70%	CAD			16,222	16,662
2018	0.64%	0.76%	JPY	1,000,000	12,022	1,000,000	11,461
2021	0.60% - 0.62%	0.73% - 0.75%	JPY	660,000	8,043	660,000	7,027
2022	0.52% - 2.62%	0.65% - 2.46%	CAD	195,988	231,851	223,288	269,303
					251,916		304,453
Total long-term notes					350,268		548,709

(1) The effective rates on long-term notes are established after giving effect to swap contracts, when applicable, and refer to yield to maturity for fixed-rate issues and yield to reset for floating-rate issues.
(2) The principal amount is presented in the original currency.

The total carrying value of the long-term notes designated as at fair value through profit or loss as at March 31, 2016, was $37,799 higher than the total principal amount due at maturity, given respective exchange rates (as at March 31, 2015, it was $47,416 higher).

The table below presents the long-term notes by type.

	March 31, 2016	March 31, 2015
Interest-bearing notes	330,203	530,221
Notes linked to currency rates	12,022	11,461
Other structured notes	8,043	7,027
Total long-term notes	350,268	548,709

19.

Net Defined Benefit Asset or Liability

BDC offers defined benefit plans that provide pension and other post-employment benefits to eligible employees. The defined benefit pension plans provide benefits based on years of service and average earnings at retirement, fully or partially indexed to the Consumer Price Index depending on the option chosen by eligible employees hired before January 1, 2015, and partially indexed to the Consumer Price Index for employees hired after December 31, 2014. Other post-employment benefit plans include health, dental, critical illness and life insurance coverage, as well as a retirement allowance program for a closed group of employees who meet certain conditions.

These defined benefit plans expose BDC to actuarial risks, such as longevity risk, interest rate risk, inflation risk and market (investment) risk. The interest rate risk arises because each year the present value of the defined benefit obligation is calculated using a discount rate determined by reference to current market yield of high-quality corporate and provincial bonds, which may vary in the future. A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments. The investment risk arises because the actual return on the plan assets may not be sufficient to fulfill future obligations. The longevity risk arises because the present value of the obligation is calculated using projected cash flows based on a life expectancy table reflecting current expectations, which may change over time, and the inflation risk arises because the actual inflation rate in a given year may be different than the rate used for estimation purposes. For each of these risks, an unfavourable variance in any given year will result in an increase in the present value of the obligation and, ultimately in higher costs. The risk that such unfavourable variances might arise is considered by the actuaries and management when reviewing the inputs to the annual actuarial valuation report.

BDC is the legal administrator of these plans and has implemented a governance structure, as follows:

> The Management Pension Funds Investment Committee ("MPFIC") of BDC is established to act in an advisory capacity to the Human Resources Committee of the Board ("HR Committee") on the Funds' investment strategies and to manage the funds according to the statements of investment policies. The MPFIC reports to the HR Committee and is chaired by the Treasurer.

> The HR Committee of the BDC Board of Directors ("board") is responsible for the design, funding, administration, communications and compliance related to the plans, as well as for overseeing, in conjunction with a pensioner, acting as an observer, all activities related to the investments of the funds of the Pension Plan for Employees of the Business Development Bank of Canada (the "registered pension plan") and BDC's supplemental pension plans (jointly referred to as the "fund"). The HR Committee reports directly to the board, comprises board members and is supported by BDC's MPFIC.

> The board is responsible for overall monitoring of the plans and the fund, and for approving recommendations from the HR Committee.

The registered pension plan is governed according to applicable federal legislation, such as the *Pension Benefits Standards Act* and the *Income Tax Act*. The plan is under the jurisdiction of the Office of the Superintendent of Financial Institutions. Participants contribute a fixed percentage of their earnings to the plan, while BDC contributes the amount needed to maintain adequate funding, as dictated by the prevailing regulations. BDC may be required to take measures to offset any funding and solvency deficit by increasing its contributions. In addition, BDC pays the entire cost of the supplemental pension plans. The HR Committee is responsible for the investment and funding policies related to the registered and supplemental pension plans.

The registered pension plan is either partly or wholly funded in accordance with actuarially determined amounts required to satisfy employee benefit entitlements. Benefits accruing to members of the contributory component of the registered pension plan are also funded by contributions by plan participants. BDC's best estimate of contributions to be paid for fiscal 2017 for the registered pension plan is $27.5 million. The supplemental pension plans are partly funded by BDC and BDC's best estimate of contributions for fiscal 2017 is $6.7 million. The other benefit plans are wholly unfunded. Estimated BDC-paid benefits for other post-employment benefit plans (including the retirement allowance plan) for fiscal 2017 amount to $5.8 million.

19. Net Defined Benefit Asset or Liability (continued)

The following tables present, in aggregate, information concerning the defined benefit plans.

	Registered pension plan		Supplemental pension plans		Other plans		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Defined benefit obligation at beginning of year	1,205,524	1,029,218	117,569	99,642	163,313	143,607	1,486,406	1,272,467
Current service cost	47,315	40,145	3,156	2,449	6,596	5,174	57,067	47,768
Interest expense	45,033	46,385	4,392	4,503	6,076	6,480	55,501	57,368
Benefit payments from plan	(40,894)	(41,675)	(3,960)	(3,500)	–	–	(44,854)	(45,175)
Benefit payments from employer	–	–	–	–	(6,037)	(4,384)	(6,037)	(4,384)
Participant contributions	14,794	11,198	–	–	–	–	14,794	11,198
Remeasurements								
Effect of changes in demographic assumptions	–	4,214	–	135	(5,706)	(4,452)	(5,706)	(103)
Effect of changes in financial assumptions	(37,233)	109,662	(3,918)	10,903	(5,220)	18,913	(46,371)	139,478
Effect of experience adjustments	7,562	6,377	1,854	3,437	422	(2,025)	9,838	7,789
Defined benefit obligation at end of year	1,242,101	1,205,524	119,093	117,569	159,444	163,313	1,520,638	1,486,406
Fair value of plan assets at beginning of year	1,305,953	1,112,745	61,218	55,028	–	–	1,367,171	1,167,773
Interest income	49,956	51,838	2,408	2,647	–	–	52,364	54,485
Employer contributions	44,709	60,075	5,616	5,813	–	–	50,325	65,888
Participant contributions	14,794	11,198	–	–	–	–	14,794	11,198
Benefit payments from plan	(40,894)	(41,675)	(3,957)	(3,500)	–	–	(44,851)	(45,175)
Administrative expenses paid from plan assets	(1,250)	(1,275)	(146)	(159)	–	–	(1,396)	(1,434)
Remeasurements								
Return on plan assets (excluding interest income)	(77,172)	113,047	(4,598)	1,389	–	–	(81,770)	114,436
Fair value of plan assets at end of year	1,296,096	1,305,953	60,541	61,218	–	–	1,356,637	1,367,171
Total net defined benefit (asset)	(53,995)	(100,429)	–	–	–	–	(53,995)	(100,429)
Total net defined benefit liability	–	–	58,552	56,351	159,444	163,313	217,996	219,664

19. Net Defined Benefit Asset or Liability (continued)

	Registered pension plan		Supplemental pension plans		Other plans		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Expense recognized in net income								
Current service cost	47,315	40,145	3,156	2,449	6,596	5,174	57,067	47,768
Interest expense on defined benefit obligation	45,033	46,385	4,392	4,503	6,076	6,480	55,501	57,368
Interest income on plan assets	(49,956)	(51,838)	(2,408)	(2,647)	–	–	(52,364)	(54,485)
Administrative expenses	1,250	1,275	146	159	–	–	1,396	1,434
Expense recognized in net income	43,642	35,967	5,286	4,464	12,672	11,654	61,600	52,085
Remeasurements recognized in OCI								
Effect of changes in demographic assumptions	–	4,214	–	135	(5,706)	(4,452)	(5,706)	(103)
Effect of changes in financial assumptions	(37,233)	109,662	(3,918)	10,903	(5,220)	18,913	(46,371)	139,478
Effect of experience adjustments	7,562	6,377	1,854	3,437	422	(2,025)	9,838	7,789
Return on plan assets (excluding interest income)	77,172	(113,047)	4,598	(1,389)	–	–	81,770	(114,436)
Remeasurement loss (gain) recognized in OCI	47,501	7,206	2,534	13,086	(10,504)	12,436	39,531	32,728

19. Net Defined Benefit Asset or Liability (continued)

Plan assets for BDC's registered and supplemental pension plans can be broken down into the following major categories of investments.

			March 31, 2016			March 31, 2015
Investment type	Quoted on active market	Unquoted	Total	Quoted on active market	Unquoted	Total
Cash	22,178	–	22,178	24,651	–	24,651
Short-term investments	–	12,672	12,672	–	17,327	17,327
Bonds						
Government of Canada	–	279,944	279,944	–	288,127	288,127
Canadian provinces	–	165,473	165,473	–	168,598	168,598
Canadian corporate and municipal	–	59,253	59,253	–	56,870	56,870
Equity investments						
Canadian equities	207,422	–	207,422	208,783	–	208,783
U.S. equities	104,755	–	104,755	104,145	–	104,145
Foreign equities	64,993	–	64,993	70,385	–	70,385
Pooled equity funds	–	342,687	342,687	–	361,547	361,547
Private equity	–	67,029	67,029	–	40,117	40,117
Derivatives	–	–	–	–	(1,598)	(1,598)
Other	–	30,231	30,231	–	28,219	28,219
Fair value of plan assets	399,348	957,289	1,356,637	407,964	959,207	1,367,171

The investment objective for the plan assets of the registered pension plan is to outperform, in the long term, the pension obligation growth rate to compensate for the risk taken. The HR Committee annually reviews the investment policy, which stipulates a diversification strategy, an acceptable level of investment risk and a commensurate rate of return. The plan assets must be invested in a portfolio of diversified securities, according to the investment policy. These investments must be well diversified by industrial sector, based on the industry classification of specific identified indices.

According to the policy, the portfolio can be divided into two large categories of investments: equity and fixed income assets. The target for fixed income assets is set at 40% of the fair market value of the portfolio. Investments in equity should represent approximately 60% of the fair market value of the portfolio (30% in foreign equity, 24.5% in domestic equity and 5.5% in private markets). The positioning of the asset mix is reviewed on a monthly basis to assess the need for a rebalancing exercise.

19. Net Defined Benefit Asset or Liability (continued)

The significant actuarial assumptions adopted in measuring BDC's defined benefit obligation at year end are as follows.

	Registered pension plan		Supplemental pension plans		Other plans	
	2016	2015	**2016**	2015	**2016**	2015
Discount rate	**4.00%**	3.80%	**4.00%**	3.80%	**4.00%**	3.80%
Inflation rate	**2.00%**	2.00%	**2.00%**	2.00%	**2.00%**	2.00%
Rate of salary increase	**3.00%**	3.00%	**3.00%**	3.00%	**3.00%**	3.00%
Rate of pension increase	**2.00%**	2.00%	**2.00%**	2.00%	**n/a**	n/a

The average rate of compensation increase is expected to be inflation, plus 0.5% for productivity gains, plus an adjustment for merit and promotion.

The following mortality table has been used to determine the present value of the benefit obligation:

> The 2014 Public Sector Mortality Table with mortality improvement Scale CPM-B, from the Canadian Pensioners' Mortality (CPM) study published by the Canadian Institute of Actuaries in February 2014, was used for 2015 and 2016.

As at March 31, 2016, the weighted-average duration of the defined benefit obligation was 18.6 years (2015: 18.7 years).

For measurement purposes, health care cost trends were assumed to be as follows:

Medical (drugs)
> 6.125% in 2016 reducing by 0.125% each year to 4% in 2033
(6.25% in 2015 reducing by 0.125% each year to 4% in 2033)

Other medical costs
> 3.8% per year
(3.8% per year in fiscal 2015)

Dental costs
> 4.0% per year
(4.0% per year in fiscal 2015)

Weighted average health care trend
> 4.8% in 2016 reducing by 0.053% each year to 3.9% in 2033
(4.9% in 2015 reducing by 0.056% each year to 3.9% in 2033)

19. Net Defined Benefit Asset or Liability (continued)

Sensitivity of assumptions

The present value of the defined benefit obligation is calculated, in the following sensitivity analyses, with the same method (the projected unit credit method) as the net defined benefit asset or liability recognized in the Consolidated Statement of Financial Position. The sensitivity analyses are based on a change in one assumption while all other assumptions are held constant. This analysis may not be representative of the actual change in the defined benefit obligation, as it is unlikely that a change in an assumption would occur in isolation; some of the assumptions may be correlated.

			March 31, 2016			March 31, 2015
Increase (decrease) of the present value of the defined benefit obligation	Registered pension plan	Supplemental pension plans	Other plans	Registered pension plan	Supplemental pension plans	Other plans
Discount rate						
Impact of: 1% increase	(204,854)	(17,170)	(22,567)	(200,278)	(17,520)	(23,294)
1% decrease	277,251	23,180	28,950	270,649	23,740	29,911
Rate of salary increase						
Impact of: 1% increase	28,315	10,482	716	27,695	10,436	696
1% decrease	(28,443)	(6,319)	(668)	(27,730)	(6,366)	(810)
Rate of price inflation						
Impact of: 1% increase	256,886	17,984	1,090	251,201	18,631	1,123
1% decrease	(195,312)	(13,853)	(955)	(191,332)	(14,326)	(1,137)
Rate of pension increase						
Impact of: 1% increase	214,122	21,192	–	209,186	21,949	–
1% decrease	(167,199)	(15,701)	–	(163,866)	(16,157)	–
Health care cost trend						
Impact of: 1% increase	–	–	22,368	–	–	22,994
1% decrease	–	–	(17,825)	–	–	(18,307)
Post-retirement mortality						
Impact of: 1 year older	(28,580)	(3,018)	(4,534)	(28,246)	(3,043)	(4,671)
1 year younger	28,431	2,995	4,631	28,123	3,025	4,771

20.

Other Liabilities

	March 31, 2016	March 31, 2015
Financial instruments		
Deposits from clients	26,945	25,144
Other[1]	1,963	2,424
	28,908	27,568
Deferred income	6,409	3,937
Other[1]	3,719	4,761
Total other liabilities	39,036	36,266

(1) All other liabilities are non-current.

21.

Share Capital

An unlimited number of common shares, having a par value of $100 each, is authorized. As at March 31, 2016, there were 22,884,000 common shares outstanding (21,384,000 as at March 31, 2015).

On the date of approval of the fiscal 2016 Consolidated Financial Statements, a dividend in respect of common shares of $68.6 million was declared, based on fiscal 2016 performance ($62.9 million in 2015).

In fiscal 2016, BDC issued 1,500,000 common shares for $150.0 million (none in 2015).

Reconciliation of the number of common shares issued and outstanding

	2016	2015
As at beginning of the year	21,384,000	21,384,000
Shares issued	1,500,000	-
As at end of the year	22,884,000	21,384,000

22.

Capital Management

Statutory limitations

As per the BDC Act, the debt-to-equity ratio of BDC may not exceed 12:1. This ratio is defined as the aggregate of borrowings recognized in the Consolidated Statement of Financial Position and contingent liabilities that exist in the form of financial guarantees issued by BDC over equity attributable to BDC's shareholder, which excludes accumulated other comprehensive income. BDC's ratio as at March 31, 2016, was 3.2:1 (3.4:1 as at March 31, 2015).

In addition, the paid-in capital, the contributed surplus and any proceeds that have been prescribed as equity (such as hybrid capital instruments) must not at any time exceed $3.0 billion. As at March 31, 2016, these amounts totalled $2.3 billion ($2.2 billion as at March 31, 2015).

During 2016 and 2015, BDC met both of these statutory limitations.

Capital adequacy

Treasury Board of Canada Secretariat provides guidelines to BDC on its capital adequacy ratios. BDC must maintain overall capital and allowance for credit losses sufficient to ensure that BDC can withstand unfavourable economic circumstances without requiring additional government funding. These capital adequacy ratios reflect the relative risk of BDC's assets.

The recommended capital is 10% for the Funding Platform for Independent Lenders; 10% for term loans and 25% for quasi-equity loans, net of allowance for credit losses; 25% for subordinate financing investments; 100% for venture capital investments; and 100% for venture capital action plan investments. BDC has also established capital adequacy ratios for guarantees to reflect their relative risks (refer to Note 26—*Guarantees and Contingent Liabilities*, for additional information).

In addition to these minimum capital ratios, BDC uses an economic capital model to internally assess its capital adequacy and to ensure that the level of capital is also sufficient to remain financially sustainable during a recessionary scenario, using stress-testing analysis. Economic capital is calculated for various types of risk, and models are based on advanced quantification methods and internal risk-based assumptions.

The available capital represents the equity attributable to BDC's shareholder and is adjusted to exclude accumulated other comprehensive income on cash flow hedges and to derecognize the net defined benefit asset.

22. Capital Management (continued)

The following table presents BDC's capital status as at March 31, 2016 and 2015. During fiscal 2016 and 2015, BDC complied with its capital adequacy guidelines.

	March 31, 2016			March 31, 2015		
	Carrying value	Capital ratio	Minimum capital required	Carrying value	Capital ratio	Minimum capital required
Asset-backed securities						
Funding Platform for Independent Lenders	509,758	10 : 1	50,976	407,731	10 : 1	40,773
Total asset-backed securities	509,758		50,976	407,731		40,773
Loans						
Term loans	17,280,705	10 : 1	1,728,071	16,455,294	10 : 1	1,645,529
Quasi-equity	2,437,001	4 : 1	609,250	1,958,750	4 : 1	489,688
Total loans	19,717,706		2,337,321	18,414,044		2,135,217
Subordinate financing[1]	734,703	4 : 1	183,676	618,693	4 : 1	154,673
Venture capital[1]	918,655	1 : 1	918,655	699,203	1 : 1	699,203
Venture capital action plan	137,668	1 : 1	137,668	47,643	1 : 1	47,643
Guarantees[2]	352,406	10 : 1	35,241	31,660	10 : 1	3,166
Total carrying value	22,370,896			20,218,974		
Total capital required per Treasury Board guidelines			3,663,537			3,080,675
Equity attributable to BDC's shareholder			5,323,473			4,744,566
Accumulated other comprehensive income on cash flow hedges			2,855			3,987
Net defined benefit asset			53,995			100,429
BDC available capital			5,266,623			4,640,150
Capital status			1,603,086			1,559,475

(1) Net of non-controlling interest of $16,701 for subordinate financing and $9,345 for venture capital ($24,117 and $10,436 as at March 31, 2015, respectively).

(2) As the carrying value for guarantees is nil, the value above represents the committed amount (refer to Note 26).

23.

Risk Management

Governance

Risk is an inherent feature of the financial sector. BDC has strong risk management practices that emphasize risk identification, risk management, transparency and accountability.

Nature and extent of risks arising from financial instruments

BDC is exposed to the following financial risks: credit risk, market risk and liquidity risk. This note provides the definitions of these risks and describes BDC's risk management policies and risk measurements.

Credit risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty in discharging its contractual commitment or obligation to BDC. For the purposes of credit risk management activities, BDC distinguishes between credit risk arising from asset-backed securities issuers, borrowers and investees, and counterparties to treasury activities.

Asset-backed securities issuers

The ABS portfolio consists of investment-grade senior and subordinated notes issued by way of private placement. ABS are fully backed by security consisting of portfolios of loans and leases on vehicles and equipment, as well as dealer floor plan loans, for which there is no significant concentration risk.

In order to mitigate the credit risk on the underlying asset portfolio, generally, there are structural or credit protections. Also, the face value of the subordinated notes does not exceed 10% of the senior notes. In addition, securities purchased must be of a certain grade. At time of purchase, senior note investments must be, at a minimum, an implied investment grade. The implied rating is calculated by BDC using the same scale as rating agencies. The rating is derived by evaluating the transaction structure and the credit enhancement supporting the securities.

Subsequently, BDC receives portfolio reports that describe the performance of the securities, along with the cash flows associated with the collateral, in order to evaluate the securities. In addition, BDC uses an internal risk rating system to monitor credit risk.

As at March 31, 2016 and 2015, none of the notes were past due and none had suffered a deterioration in their credit rating. The maximum exposure to credit risk of ABS is limited to the carrying value of the securities. Refer to Note 9—*Asset-Backed Securities*, for additional information on this portfolio.

23. Risk Management (continued)

Credit risk (continued)

Borrowers and investees

BDC uses a number of policies, directives and procedures to manage credit exposures from loans and investments, which include:

- the use of an internal credit risk rating classification;
- credit policies, guidelines and directives, communicated to officers whose activities and responsibilities include credit granting and risk assessment, which ensure early recognition of problem accounts and immediate implementation of steps to protect BDC's assets;
- independent reviews of credit valuation, risk classification and credit management procedures performed by Internal Audit, which include reporting the results to senior management, the president and chief executive officer, and the Audit Committee;
- approval of larger transactions by the Board Risk Committee and the Board Investment Committee, based on recommendations made by the Credit Risk Committee;
- monitoring of portfolio concentrations to protect BDC from being overly concentrated in any one province or industry sector;
- monitoring to ensure that exposure to a single borrower or associated borrowers, unless approved by the Board of Directors, does not represent more than 10% of the shareholder's equity;
- an annual review process to ensure appropriate classification of individual credit facilities;
- the conduct of semi-annual valuations of investments; and
- a watchlist report recording accounts with evidence of weaknesses, as well as an impaired loan report covering loans that show impairment.

The maximum exposure to credit risk from borrowers and investees is limited to the carrying amount of the loans, subordinate financing investments and venture capital investments in debentures. Refer to Note 10—*Loans*, Note 11—*Subordinate Financing Investments*, Note 12—*Venture Capital Investments* and Note 13—*Venture Capital Action Plan Investments* for additional information on loans and investment portfolios.

BDC is also exposed to credit risk on its loan commitments and financial guarantees. Maximum exposure to credit risk is limited to the committed amount or, in the case of financial guarantees, to the maximum amount payable under the guarantees. Refer to Note 26—*Guarantees and Contingent Liabilities* and Note 27—*Commitments* for additional information.

23. Risk Management (continued)

Credit risk (continued)

Counterparties to treasury activities

In order to mitigate the credit risk inherent in treasury activities, the Treasury Risk Management Unit identifies and measures BDC's credit risk exposure related to derivative counterparties and issuers of cash equivalents.

The notional amounts of derivative financial instruments held by BDC are not indicative of the credit risk exposure associated with the contracts. The risk of loss is related to the possibility that a counterparty to a transaction will not perform as agreed. In the event of default by a counterparty, the risk to BDC in these transactions would be limited to the prevailing currency and/or interest rate differentials, as represented by the market values of transactions that are in an unrealized gain position.

BDC limits its exposure to credit risk by dealing only with financial institutions that have credit ratings in accordance with the Treasury Risk Policy. As at March 31, 2016, and March 31, 2015, BDC had no significant concentrations in any individual financial institution.

BDC continually monitors its position and the credit ratings of its counterparties, and seeks to limit its credit exposure with respect to contracts in a favourable position by entering into master netting agreements with counterparties.

Counterparty credit risk exposure	Counterparty ratings			
	AA- to AA+	A- to A+	BBB to BBB+	Total
Gross positive replacement cost	26,112	24,831	744	51,687
Impact of master netting agreements	–	(4,077)	–	(4,077)
Replacement cost (after master netting agreements) – March 31, 2016	26,112	20,754	744	47,610
Replacement cost (after master netting agreements) – March 31, 2015	31,471	14,826	112	46,409
Number of counterparties				
March 31, 2016	2	6	1	9
March 31, 2015	3	6	1	10

Finally, to manage the credit risk arising from an issuer of cash equivalents, the Treasury Risk Management Unit ensures the liquidity portfolio is composed of securities issued or guaranteed by entities that have a minimum credit rating of A.

23. Risk Management (continued)

Market risk

Market risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in financial market variables, such as interest and foreign exchange rates. Market risk for BDC also arises from volatile unpredictable market events affecting the value of venture capital investments.

Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. For BDC, the risk and potential variability in earnings arise primarily when cash flows associated with interest-sensitive assets and liabilities have different repricing dates. A positive interest rate gap exists when interest-sensitive assets exceed interest-sensitive liabilities for a specific maturity or repricing period. A positive gap will result in an increase in net interest income when market interest rates rise, since assets reprice earlier than liabilities. The opposite impact will occur when market interest rates fall. As set out in the treasury risk policy, BDC manages market risk by matching the terms of assets and liabilities. As a result, BDC structured notes are economically hedged, using derivatives, to eliminate market risks (refer to Note 8—*Derivative Financial Instruments*, for additional information).

To manage the interest rate gap on its interest-sensitive assets and interest-sensitive liabilities, BDC establishes policy guidelines for interest rate gap positions, regularly monitors the Bank's situation and decides future strategies in light of changing market conditions. The objective is to manage the interest rate risk using sound and prudent guidelines. Interest rate risk policies included in the Treasury Risk Policy are approved and reviewed at least annually by the Board of Directors.

Exposure to interest rate risk is controlled by managing the size of the static gap positions between interest-sensitive assets and interest-sensitive liabilities. Gap analysis is supplemented by computer simulation of the asset liability portfolio structure and by a duration analysis. The interest rate gap is measured daily.

Exposure to interest rate risk is also monitored using a net interest income sensitivity stress test. A parallel and sustainable 200-basis-point shock on the Canadian yield curve is simulated and the impact on net interest income has to be less than 10%. As at March 31, 2016, the impact was 3% or $24 million on net income and equity (5% or $44 million as at March 31, 2015).

23. Risk Management (continued)

Market risk (continued)

Interest rate risk (continued)

The following tables summarize BDC's interest rate sensitivity position based on the difference between the carrying value of assets and the carrying value of liabilities and equity, grouped by the earlier of contractual repricing or maturity date. The effective yield represents the weighted-average effective yield based on the earlier of contractual repricing or maturity date. This gap analysis is a static measurement of interest rate-sensitive gaps at a specific time. These gaps can change significantly in a short period of time.

Canadian dollar transactions

	Floating rate	Within 3 months[2]	4 to 12 months	1 to 5 years	Over 5 years	Non-rate-sensitive[3]	Allowance and fair value	Total
Assets								
Cash and cash equivalents	24,037	649,640						673,677
Effective yield (%)		*0.79*						
Derivative assets		42,206						42,206
Asset-backed securities				3,390	506,368			509,758
Effective yield (%)				*2.41*	*1.69*			
Loans	15,159,293	355,556	672,319	2,454,022	902,369	551,399	(598,835)	19,496,123
Effective yield (%)	*4.88*	*4.21*	*4.62*	*4.85*	*5.05*			
Subordinate financing investments	264,950	10,056	30,353	310,597	11,898	119,305	(14,840)	732,319
Effective yield[1] (%)	*9.62*	*12.50*	*9.73*	*10.19*	*8.34*			
Venture capital investments						496,250	66,054	562,304
Venture capital action plan investments						135,337	144	135,481
Other						129,587		129,587
	15,448,280	1,057,458	702,672	2,768,009	1,420,635	1,431,878	(547,477)	22,281,455
Liabilities and equity								
Derivative liabilities		9		3,833				3,842
Short-term notes		16,847,175						16,847,175
Effective yield (%)		*0.43*						
Long-term notes		43,875	48,871	5,606	231,851			330,203
Effective yield (%)		*1.09*	*0.80*	*0.55*	*1.69*			
Other						353,722		353,722
Total equity						5,349,519		5,349,519
	-	16,891,059	48,871	9,439	231,851	5,703,241	-	22,884,461
Total gap position before derivatives								
March 31, 2016	15,448,280	(15,833,601)	653,801	2,758,570	1,188,784	(4,271,363)	(547,477)	(603,006)
March 31, 2015	14,620,558	(14,503,235)	339,551	2,594,985	968,398	(3,840,596)	(534,905)	(355,244)
Total derivative position		(220,988)	15,000	10,000	195,988			-
Total gap position March 31, 2016	15,448,280	(16,054,589)	668,801	2,768,570	1,384,772	(4,271,363)	(547,477)	(603,006)
Total gap position March 31, 2015	14,620,558	(15,030,745)	528,773	2,709,985	1,191,686	(3,840,596)	(534,905)	(355,244)

(1) Excludes non-interest return.
(2) This grouping includes asset-backed securities, short-term and long-term notes for which interest rates reset monthly. The short-term and long-term notes are used to fund floating-rate assets.
(3) Assets, liabilities and equities that are non-rate sensitive have no specific maturity.

23. Risk Management (continued)

Market risk (continued)

Interest rate risk (continued)

Foreign currency transactions, expressed in Canadian dollars

	Floating rate	Within 3 months[2]	4 to 12 months	1 to 5 years	Over 5 years	Non-rate-sensitive[3]	Allowance and fair value	Total
Assets								
Cash and cash equivalents	6,416							6,416
Effective yield (%)								
Derivative assets		2,134				7,347		9,481
Loans	193,293	23,516	2,233	6,176		3,254	(6,889)	221,583
Effective yield (%)	*4.55*	*2.64*	*4.62*	*4.85*				
Subordinate financing investments	18,890						195	19,085
Effective yield[1] (%)	*10.34*							
Venture capital investments						322,002	43,694	365,696
Venture capital action plan investments						2,568	(381)	2,187
	218,599	25,650	2,233	6,176	–	335,171	36,619	624,448
Liabilities and equity								
Derivative liabilities						235		235
Short-term notes		866						866
Effective yield (%)		*0.13*						
Long-term notes				20,065				20,065
Effective yield (%)				*0.63*				
Other						276		276
	–	866	–	20,065	–	511	–	21,442
Total gap position before derivatives								
March 31, 2016	218,599	24,784	2,233	(13,889)	–	334,660	36,619	603,006
March 31, 2015	142,683	212	–	(18,488)	–	225,392	5,445	355,244
Total derivative position	–	(18,129)	–	18,129	–	–	–	–
Total gap position March 31, 2016	218,599	6,655	2,233	4,240	–	334,660	36,619	603,006
Total gap position March 31, 2015	142,683	(18,519)	–	(7,296)	7,539	225,392	5,445	355,244

(1) Excludes non-interest return.

(2) This grouping includes asset-backed securities, short-term and long-term notes for which interest rates reset monthly. The short-term and long-term notes are used to fund floating-rate assets.

(3) Assets, liabilities and equities that are non-rate sensitive have no specific maturity.

23. Risk Management (continued)

Market risk (continued)

Interest rate risk (continued)

Total transactions, expressed in Canadian dollars

	Floating rate	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non-rate-sensitive	Allowance and fair value	Total
Total gap position for Canadian dollar transactions	15,448,280	(16,054,589)	668,801	2,768,570	1,384,772	(4,271,363)	(547,477)	(603,006)
Total gap position for foreign currency transactions	218,599	6,655	2,233	4,240	–	334,660	36,619	603,006
Total gap position March 31, 2016	15,666,879	(16,047,934)	671,034	2,772,810	1,384,772	(3,936,703)	(510,858)	–
Total gap position March 31, 2015	14,763,241	(15,049,264)	528,773	2,702,689	1,199,225	(3,615,204)	(529,460)	–

Foreign exchange risk

Foreign exchange risk arises when there is a difference between assets and liabilities held in foreign currencies. Foreign exchange risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. BDC's policy and practice are to economically hedge borrowings, subordinate financing investments and loans in foreign currencies so that the residual exposure to foreign exchange risk is not significant. Venture capital investments are hedged following the occurrence of a liquidity event. Refer to Note 8—*Derivative Financial Instruments*, for more information.

Venture capital market risk

Unpredictable financial markets, as well as the presence and appetite of buyers, dictate the timing of venture capital divestitures. This timing, in turn, affects the value of BDC venture capital investments. To manage this risk, BDC uses a rigorous selection process of investments and works closely with its investee companies. BDC also lowers the risk of its venture capital and venture capital action plan investments by applying conservative valuations when purchasing participation in a company, co-investing with other venture capital investors and monitoring investments regularly.

The Internal Risk Committees, composed of senior managers, review all investment transactions and approve those within their delegated limits. For larger transactions, these committees make recommendations to the Venture Capital Investment and Risk Committee of the board for approval.

Liquidity risk

Liquidity risk is the risk that BDC will be unable to honour all its contractual cash outflows as they become due. Contractual payments for BDC represent (i) repayment of debt; (ii) timely disbursement of committed loans, investments and asset-backed securities; and (iii) payments of dividends, and operating and administrative expenses.

23. Risk Management (continued)

Liquidity risk (continued)

The following tables present contractual maturities of financial liabilities and commitments, and are based on notional amounts, which may differ from carrying values.

	Within 1 year	1 to 5 years	Over 5 years	No fixed maturity	Total
Accounts payable and accrued liabilities	64,710	32,256			96,966
Derivative liabilities[1]	2,501	2,501			5,002
Short-term notes[2]	16,875,926				16,875,926
Long-term notes[2]	152,578	252,037	224,398		629,013
Other financial liabilities	28,908				28,908
Commitments					
Loans	2,250,670				2,250,670
Subordinate financing investments	72,316				72,316
Venture capital investments[3]				360,069	360,069
Venture capital action plan investments[3]				252,254	252,254
Asset-backed securities	297,000				297,000
Guarantees	352,406				352,406
Total as at March 31, 2016	**20,097,015**	**286,794**	**224,398**	**612,323**	**21,220,530**

	Within 1 year	1 to 5 years	Over 5 years	No fixed maturity	Total
Accounts payable and accrued liabilities	67,509	34,487			101,996
Derivative liabilities[1]	2,501	5,001			7,502
Short-term notes[2]	15,463,311				15,463,311
Long-term notes[2]	237,535	446,947	324,123		1,008,605
Other financial liabilities	27,568				27,568
Commitments					
Loans	2,255,240				2,255,240
Subordinate financing investments	67,661				67,661
Venture capital investments[3]				337,082	337,082
Venture capital action plan investments[3]				272,979	272,979
Asset-backed securities	227,000				227,000
Guarantees	31,660				31,660
Total as at March 31, 2015	18,379,985	486,435	324,123	610,061	19,800,604

(1) Derivative liabilities reflect the interest payments to maturity of derivatives.
(2) Short-term and long-term notes reflect the notional amount that will be paid as per the contractual note agreements.
(3) Commitments are mainly related to participation in funds in which BDC legally committed to invest. Timing of investments will vary depending on the funds' investment requirements and should occur over the next several years.

23. Risk Management (continued)

Liquidity risk (continued)

A lack of marketability could make it expensive or even impossible to liquidate the securities held by BDC, which could also compromise the short-term continuity of normal business. To avoid any liquidity-related disruptions, BDC ensures that cash is invested in highly liquid and high-quality securities that can be sold to a wide range of counterparties without incurring a substantial discount.

BDC's liquidity risk management objective is to mitigate this risk by:

> providing for a minimum level of short-term assets over short-term liabilities to cover commitment, market, systemic and operational risks;

> minimizing the unproductive cash balance in the cash account; and

> achieving a return on liquid assets in excess of cost while protecting BDC's capital.

The treasury risk policy establishes risk tolerance parameters, provides delegation of authority to BDC's Treasury Department to transact in approved products and provides limits related to specific measures. The policy governs management, measurement, monitoring and reporting requirements related to liquidity. Paragraph 18(3) of the BDC Act defines the instruments in which BDC may invest its liquidity.

BDC's liquidity management practices and processes reinforce its risk mitigation strategies by assigning prudent liquidity levels, concentration requirements and maturity profile requirements, as outlined below:

> The minimum liquidity level covers at least the net outflows scheduled for the next five working days. The maximum liquidity level is not to exceed 15 days of net cash outflows.

> The maturity profile requires 75% of the total liquidity to be invested in securities maturing within 100 days.

> The concentration profile requires that no more than 50% of the portfolio be invested in securities issued or guaranteed by Canadian provinces.

The cash and cash equivalents received from derivative counterparties to cover credit risk exposure as per the Credit Support Annex of the International Swap and Derivatives Association agreements are not included in the liquidity level and limits. As of March 31, 2016, the carrying amount of these collaterals was $866 ($384 as at March 31, 2015).

The following tables show the results of BDC's liquidity risk management.

Liquidity level (in millions of Canadian dollars)

	Minimum	Actual	Maximum
As at March 31, 2016	162	650	1,355
As at March 31, 2015	364	657	1,432

Maturity and concentration limits	Limits	**March 31, 2016**	March 31, 2015
Cash and cash equivalents maturing within 100 days	Min 75%	100%	100%
Cash and cash equivalents in Canadian provinces	Max 50%	0%	0%

The Treasury Risk Management Unit identifies, measures and monitors these liquidity limits daily. It reports any deviations from these liquidity limits to the Board of Directors. The Treasury Risk Management Unit determines whether the limits remain valid or whether changes to assumptions and limits are required in light of internal or external developments. This process ensures that close links are maintained between liquidity, market and credit risks.

24.

Additional Information on the Consolidated Statement of Income

Additional information on financial instruments

	FVTPL[1]		Other financial instrument classification		Total	
	2016	2015	**2016**	2015	**2016**	2015
Interest income[2]	**63,097**	60,346	**1,028,800**	1,010,095	**1,091,897**	1,070,441
Interest expense	**3,603**	5,996	**71,953**	121,170	**75,556**	127,166
Fee and other income	**31,588**	28,457	**16,967**	15,310	**48,555**	43,767

(1) Fair value through profit or loss.
(2) Interest income includes $32,637 for impaired loans in 2016 ($35,663 in 2015).

							2016
	FVTPL[1]						
	Held-for-trading	Designated as at FVTPL	Available-for-sale	Cash flow hedges	Loans and receivables	Other financial liabilities	Total
Total gains (losses)							
Net realized gains (losses) on investments	**–**	**(5,991)**	**–**	**–**	**–**	**–**	**(5,991)**
Net realized gains (losses) on other financial instruments	**(72)**	**854**	**–**	**175**	**–**	**–**	**957**
Net change in unrealized appreciation (depreciation) of investments	**–**	**86,020**	**–**	**–**	**–**	**–**	**86,020**
Net unrealized foreign exchange gains (losses) on investments	**–**	**8,305**	**–**	**–**	**–**	**–**	**8,305**
Net unrealized gains (losses) on other financial instruments	**(6,838)**	**10,299**	**–**	**16**	**–**	**36**	**3,513**
	(6,910)	**99,487**	**–**	**191**	**–**	**36**	**92,804**

							2015
	FVTPL[1]						
	Held-for-trading	Designated as at FVTPL	Available-for-sale	Cash flow hedges	Loans and receivables	Other financial liabilities	Total
Total gains (losses)							
Net realized gains (losses) on investments	–	(35,064)	–	–	–	–	(35,064)
Net realized gains (losses) on other financial instruments	(5,926)	–	–	641	–	–	(5,285)
Net change in unrealized appreciation (depreciation) of investments	–	37,217	–	–	–	–	37,217
Net unrealized foreign exchange gains (losses) on investments	–	27,974	–	–	–	–	27,974
Net unrealized gains (losses) on other financial instruments	1,020	(2,809)	–	(287)	–	–	(2,076)
	(4,906)	27,318	–	354	–	–	22,766

(1) Fair value through profit or loss.

24. Additional Information on the Consolidated Statement of Income (continued)

Other additional information

	2016	2015
Salaries and benefits		
Salaries and other benefits	269,496	253,095
Defined benefit plan expense (Note 19)	61,600	52,085
	331,096	305,180
Other expenses		
Professional and outsourcing fees	37,123	37,176
Computers and software, including amortization and depreciation	29,296	24,241
Communications, advertising and promotion	15,749	13,554
Other	23,381	22,654
	105,549	97,625

25.

Segmented Information

BDC has six reportable segments, as described below, which are the Bank's business lines. Each business line offers different products and services, and is managed separately based on BDC's management and internal reporting structure.

The following summary describes the operations in each of the Bank's reportable segments.

> **Financing** provides secured, partially secured and unsecured loans with a focus on small and medium-sized enterprises across Canada.

> **Growth & Transition Capital** provides subordinate financing by way of flexible debt, with or without convertible features, and equity-type financing.

> **Venture Capital** provides investments to cover every stage of a technology-based company's development cycle, from seed funding to expansion. BDC also makes indirect investments via venture capital investment funds.

> **BDC Advantage** supports high-impact firms and provides consulting services, group programs and other services related to business activities.

> **Securitization** purchases investments in asset-backed securities through the Funding Platform for Independent Lenders (F-PIL, formerly known as the Multi-Seller Platform for Small Originators). These securities are backed by vehicle and equipment loans and leases, as well as dealer floor plan loans. BDC also provides fully secured loans to small- and medium-sized finance and leasing companies.

> **Venture Capital Action Plan** supports the creation of large private sector-led funds of funds and also assists existing high-performing funds in partnership with institutional investors, corporate strategic investors and interested provinces.

The assumptions and methodologies used in BDC's reporting framework are periodically reviewed by management to ensure they remain valid. The main allocation methods used by BDC are described below.

25. Segmented Information (continued)

Interest expense is allocated to each operating segment based on its business portfolio and the capital attributed to the segment. The attribution of capital to BDC's business segments is maintained in accordance with BDC's internal capital adequacy assessment process and is consistently aligned to the economic risks of each specific business segment. Refer to Note 22—*Capital Management*, for more information.

Operating and administrative expenses include costs that were incurred directly by the business segments. Indirect costs incurred at the enterprise level are attributed to each segment using management's internal reporting framework.

Loan and investment portfolios are managed separately based on BDC's business segments. None of the other assets or liabilities are managed by segment.

The following tables present financial information regarding the results of each reportable segment.

							March 31, 2016
	BDC	Financing	Growth & Transition Capital	Venture Capital	BDC Advantage	Securitization	Venture Capital Action Plan
Interest income	1,091,897	1,020,092	62,717	–	–	9,088	–
Interest expense	75,556	66,918	4,615	–	–	4,023	–
Net interest income (expense)	1,016,341	953,174	58,102	–	–	5,065	–
Net realized gains (losses) on investments	(5,991)	–	394	(6,385)	–	–	–
Consulting revenue	16,402	–	–	–	16,402	–	–
Fee and other income	48,555	16,673	26,922	3,914	351	357	338
Net realized gains (losses) on other financial instruments	957	1,029	–	(72)	–	–	–
Net revenue (loss)	1,076,264	970,876	85,418	(2,543)	16,753	5,422	338
Provision for credit losses	(160,909)	(160,909)	–	–	–	–	–
Net change in unrealized appreciation (depreciation) of investments	86,020	–	475	81,619	–	(32)	3,958
Net unrealized foreign exchange gains (losses) on investments	8,305	–	–	8,376	–	–	(71)
Net unrealized gains (losses) on other financial instruments	3,513	3,287	–	226	–	–	–
Income (loss) before operating and administrative expenses	1,013,193	813,254	85,893	87,678	16,753	5,390	4,225
Salaries and benefits	331,096	254,249	27,434	14,323	32,355	1,916	819
Premises and equipment	38,817	32,674	1,742	1,774	2,456	117	54
Other expenses	105,549	84,537	3,020	4,141	13,511	272	68
Operating and administrative expenses	475,462	371,460	32,196	20,238	48,322	2,305	941
Net income (loss)	537,731	441,794	53,697	67,440	(31,569)	3,085	3,284
Net income (loss) attributable to:							
BDC's shareholder	535,448	441,794	49,162	69,692	(31,569)	3,085	3,284
Non-controlling interests	2,283	–	4,535	(2,252)	–	–	–
Net income (loss)	537,731	441,794	53,697	67,440	(31,569)	3,085	3,284
Business segment portfolio as at March 31[1]	22,044,536	19,703,039	751,404	928,000	–	524,425	137,668

(1) Securitization's portfolio at the end of the period included $14,667 in loans and $509,758 in asset-backed securities.

25. Segmented Information (continued)

							March 31, 2015
	BDC	Financing	Growth & Transition Capital	Venture Capital	BDC Advantage	Securitization	Venture Capital Action Plan
Interest income	1,070,441	1,002,171	60,008	–	–	8,262	–
Interest expense	127,166	117,396	7,442	–	–	2,328	–
Net interest income (expense)	943,275	884,775	52,566	–	–	5,934	–
Net realized gains (losses) on investments	(35,064)	2	(23,010)	(12,056)	–	–	–
Consulting revenue	17,044	–	–	–	17,044	–	–
Fee and other income	43,767	15,239	26,512	1,671	–	71	274
Net realized gains (losses) on other financial instruments	(5,285)	641	–	(5,926)	–	–	–
Net revenue (loss)	963,737	900,657	56,068	(16,311)	17,044	6,005	274
Provision for credit losses	(95,923)	(95,923)	–	–	–	–	–
Net change in unrealized appreciation (depreciation) of investments	37,217	–	9,523	31,305	–	(20)	(3,591)
Net unrealized foreign exchange gains (losses) on investments	27,974	–	–	27,974	–	–	–
Net unrealized gains (losses) on other financial instruments	(2,076)	(3,863)	–	1,787	–	–	–
Income (loss) before operating and administrative expenses	930,929	800,871	65,591	44,755	17,044	5,985	(3,317)
Salaries and benefits	305,180	237,766	22,510	15,420	27,168	1,574	742
Premises and equipment	37,434	31,970	1,511	1,759	2,025	105	64
Other expenses	97,625	77,707	3,045	4,308	12,096	341	128
Operating and administrative expenses	440,239	347,443	27,066	21,487	41,289	2,020	934
Net income (loss)	490,690	453,428	38,525	23,268	(24,245)	3,965	(4,251)
Net income (loss) attributable to:							
BDC's shareholder	490,516	453,428	36,301	25,318	(24,245)	3,965	(4,251)
Non-controlling interests	174	–	2,224	(2,050)	–	–	–
Net income (loss)	490,690	453,428	38,525	23,268	(24,245)	3,965	(4,251)
Business segment portfolio as at March 31[1]	20,221,867	18,410,941	642,810	709,639	–	410,834	47,643

(1) Securitization's portfolio at the end of the period included $3,103 in loans and $407,731 in asset-backed securities.

26.

Guarantees and Contingent Liabilities

Financial guarantees

Guarantees

BDC issues "letters of credit, loan guarantees and portfolio guarantees" (guarantees) to support businesses. Those guarantees represent BDC's obligation to make payments to third parties if clients are unable to meet their contractual commitments. Collateral requirements for guarantees are consistent with BDC collateral requirements for loans. The fee income earned is calculated on a straight-line basis over the life of the instrument and recognized in fee and other income in the Consolidated Statement of Income. The maximum contractual obligation under the guarantees totalled $352.4 million as at March 31, 2016 ($31.7 million as at March 31, 2015) and the existing terms expire within 163 months (within 39 months as at March 31, 2015). However, the actual exposure as at March 31, 2016, was $17.8 million ($13.8 million as at March 31, 2015).

These financial guarantees were initially recognized at fair value on the date the guarantees were given. The fair value was considered nil, as all guarantees were agreed to on arm's-length terms and no initial fee was received. In addition, no receivable for the future expected fees was recognized. Subsequent recognition of a liability will only occur when it becomes more likely than not that a client will not meet its contractual commitments. As at March 31, 2016 and 2015, there were no liabilities recognized in BDC's Consolidated Statement of Financial Position related to these guarantees.

Indemnification agreements

In the ordinary course of business, BDC enters into many contracts that contain indemnification provisions, such as purchase contracts, employment contracts, service agreements and leasing arrangements. In such contracts, BDC may indemnify counterparties to the contracts for certain aspects of BDC's past conduct if other parties fail to perform, or if certain events occur, such as changes in laws and regulations (including tax legislation), changes in the financial condition of third parties, infringements and breaches of representations and warranties, undisclosed liabilities, and loss caused by the actions of third parties, or as a result of litigation claims by third parties.

These indemnification obligations will vary based upon each contract. In many cases, there are no predetermined amounts or limits included in these contracts, and the occurrence of contingent events that will trigger payment under them is difficult to predict. The nature of these indemnification contracts is such that BDC cannot reasonably estimate the maximum potential future amount that may be payable to counterparties. Historically, BDC has not made any significant payments under these indemnities and there were no significant provisions for indemnities as of March 31, 2016 and 2015.

Contingent liabilities

Various legal proceedings arising from the normal course of business are pending against BDC. Management believes that should BDC be found liable pursuant to one or more of these proceedings, the aggregate liability resulting from such proceedings would not be material.

27.

Commitments

Loans and investments

Loans

Undisbursed amounts of authorized loans were $2,250,670 as at March 31, 2016 ($669,248 fixed rate; $1,581,422 floating rate) and are expected to be disbursed within the next 12 months. The weighted-average effective interest rate was 4.4% on loan commitments (4.6% as at March 31, 2015). The following tables present undisbursed amounts of authorized loans by location and industry.

Commitments, by geographic distribution	March 31, 2016	March 31, 2015
Newfoundland and Labrador	63,612	88,431
Prince Edward Island	544	525
Nova Scotia	34,865	55,930
New Brunswick	19,884	22,499
Quebec	545,850	545,479
Ontario	685,774	643,218
Manitoba	55,091	67,579
Saskatchewan	53,655	66,173
Alberta	546,708	568,549
British Columbia	240,861	193,659
Yukon	1,298	2,172
Northwest Territories and Nunavut	2,528	1,026
Total	2,250,670	2,255,240

Commitments, by industry sector	March 31, 2016	March 31, 2015
Manufacturing	572,285	519,240
Wholesale and retail trade	291,608	319,899
Tourism	278,287	322,222
Construction	268,499	247,874
Resources	258,051	254,214
Service industries	229,252	248,614
Transportation and storage	172,942	91,765
Commercial properties	70,284	103,386
Other	109,462	148,026
Total	2,250,670	2,255,240

Subordinate financing investments

Undisbursed amounts of authorized subordinate financing investments were $72,316 as at March 31, 2016 ($32,340 fixed rate; $39,976 floating rate) and are expected to be disbursed within the next 12 months. The weighted-average effective interest rate was 10.8% on subordinate financing commitments (9.9% as at March 31, 2015), excluding non-interest return. The following tables present undisbursed amounts of authorized subordinate financing investments, by location and industry.

Commitments, by geographic distribution	March 31, 2016	March 31, 2015
Newfoundland and Labrador	1,209	255
Nova Scotia	750	-
Quebec	15,131	23,570
Ontario	35,571	32,556
Saskatchewan	-	4,400
Alberta	16,200	2,650
British Columbia	3,455	4,230
Total	72,316	67,661

27. Commitments (continued)

Loans and investments (continued)

Subordinate financing investments (continued)

Commitments, by industry sector[1]	March 31, 2016	March 31, 2015
Manufacturing	28,796	19,350
Resources	14,750	5,600
Services industries	9,720	18,738
Information industries	8,425	4,061
Tourism	3,900	–
Wholesale and retail trade	2,675	9,832
Transportation and storage	2,400	300
Construction	1,650	4,780
Other	–	5,000
Total	72,316	67,661

(1) Certain comparative figures were adjusted to reflect 2016 industry groupings.

Venture capital investments

The undisbursed amounts of authorized venture capital investments were related to the following industry sectors.

Commitments, by industry sector	March 31, 2016	March 31, 2015
Biotechnology and pharmacology	16,030	3,671
Electronics	4,811	1,205
Medical and health	4,000	7,000
Information technology	1,914	3,750
Industrial	–	1,000
	26,755	16,626
Funds	333,314	320,456
Total	360,069	337,082

Venture capital action plan investments

The undisbursed amounts of authorized venture capital action plan investments were $252,254 as at March 31, 2016 ($272,979 as at March 31, 2015).

Asset-backed securities

The undisbursed amounts of authorized asset-backed securities were $297,000 as at March 31, 2016 ($227,000 as at March 31, 2015).

Intangible assets

As at March 31, 2016, and March 31, 2015, there were no significant contractual commitments to acquire systems and software.

Property and equipment

As at March 31, 2016, and March 31, 2015, there were no significant contractual commitments to acquire property and equipment.

27. Commitments (continued)

Leases

BDC entered into a number of lease agreements to provide office space for its head office and business centres. BDC's future minimum lease payments and cost for services under operating leases related to the rental of premises are approximately as follows.

	March 31, 2016	March 31, 2015
Within 1 year	28,529	28,041
1 to 5 years	87,860	87,272
After 5 years	184,305	20,734
Total	300,694	136,047

During the year, lease payments recognized as an expense amounted to $26.7 million ($26.3 million in 2015). This amount consists of minimum lease payments. No significant sublease payments or contingent rent payments were made or received.

28.

Related Party Transactions

BDC is a Crown corporation that is wholly owned by the Government of Canada and is accountable for its affairs through the Minister of Innovation, Science and Economic Development. BDC is also related to all Government of Canada-created departments, agencies and Crown corporations. BDC enters into transactions with these entities in the normal course of business, under terms and conditions similar to those that apply to unrelated parties.

The defined benefit plans referred to in Note 19—*Net Defined Benefit Asset or Liability*, are also related parties. BDC's transactions with these funds include contributions paid to the plans, which are disclosed in Note 19. BDC has no other transactions or balances related to these defined benefit plans.

Borrowings with the Minister of Finance

During the reporting periods, BDC has borrowed funds from Her Majesty the Queen in Right of Canada acting through the Minister of Finance. This borrowing is in accordance with the FAA and the BDC Act and is compliant with (i) BDC's borrowing plan, which is approved by the Minister of Finance, and (ii) the Crown Borrowing Program Framework.

The following table presents the transactions and outstanding balances related to the borrowings with the Minister of Finance. Refer to Note 18—*Borrowings*, for additional information on short-term and long-term notes.

	Short-term notes		Long-term notes			Total
	2016	2015	2016	2015	2016	2015
Balance at beginning of year	15,435,363	14,050,567	244,256	274,546	15,679,619	14,325,113
Net change in short-term notes	1,412,000	1,386,000	–	–	1,412,000	1,386,000
Net changes in accrued interest	(427)	(1,204)	(304)	(191)	(731)	(1,395)
Issuance of long-term notes	–	–	–	154,600	–	154,600
Repayment of long-term notes	–	–	(145,600)	(184,699)	(145,600)	(184,699)
Balance at end of year	16,846,936	15,435,363	98,352	244,256	16,945,288	15,679,619

During the year, BDC recorded $76.2 million in interest expense related to these borrowings ($127.0 million in 2015). In addition, no borrowings with the Minister of Finance were repurchased in 2016 (borrowings with the Minister of Finance repurchased resulted in a net realized loss of $0.5 million in 2015).

28. Related Party Transactions (continued)

Key management personnel

Key management personnel are defined as those officers having authority and responsibility for planning, directing and controlling the activities of BDC, including members of the Board of Directors. The following table presents the compensation expense of key management personnel.

	2016	2015
Salaries and short-term employee benefits	4,529	4,035
Post-employment benefits	1,229	1,058
Other long-term benefits	827	1,251
Total	6,585	6,344

The following loans or investments were approved by the BDC Board of Directors. A member of the Board of Directors either owns an interest in, or is a director or officer of, the BDC client. Said board members disclosed their interest to the board, were not present when the loan or investment was discussed, and did not vote on the resolution of the Board of Directors to approve the related transaction.

Name of client	Amount of the loan or investment
Kira Talent Inc.	200
TravelEdge ULC	200
Total	400

Subsidiaries and associates

The relationship between BDC and its subsidiaries meets the definition of a related party. All transactions between the Bank and its subsidiaries have been eliminated on consolidation, and as such are not disclosed as related-party transactions.

In the normal course of business, BDC provides certain services to associates, including equity-type financing and investments. These transactions meet the definition of related-party transactions and are made on terms equivalent to those that prevail in arm's-length transactions.

29.

Comparative Figures

BDC has reviewed the definition of certain expenses to be included within the salaries and benefits, premises and equipment, and other expenses line items in the Consolidated Statement of Income. Consequently, BDC has reclassified the following:

> salaries and benefits-related expense items presented in the other expenses line item as at March 31, 2015, to the salaries and benefits line item in the Consolidated Statement of Income;

> expense items presented in the other expenses line item as at March 31, 2015, to the premises and equipment line item in the Consolidated Statement of Income to present all premises and equipment expenses in the same line item; and

> expense items presented in the premises and equipment line item as at March 31, 2015, to the other expenses line item in the Consolidated Statement of Income to present all costs related to computers and software in the same line item.

These reclassifications did not have an impact on the total operating and administrative expenses presented in the Consolidated Statement of Income and are summarized in the table below.

Consolidated Statement of Income		Year ended March 31, 2015	
	As previously reported	Reclassification	Reclassified
Salaries and benefits	303,527	1,653	305,180
Premises and equipment	46,171	(8,737)	37,434
Other expenses	90,541	7,084	97,625
Operating and administrative expenses	440,239	–	440,239

Corporate Governance

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At BDC, we have established a robust and effective corporate governance structure to maintain the confidence and trust of our most important stakeholders: entrepreneurs, employees, the public and our shareholder.

We achieve high standards of governance through a clear understanding of our mandate, well-defined roles, strong leadership and alignment of our corporate governance framework from the board level to the operational level.

BDC's Corporate Governance Framework

Federal statutes and Treasury Board guidelines

Our principal guidelines derive from three documents. The *Business Development Bank of Canada Act* sets out BDC's purpose, powers and duties. The *Financial Administration Act* sets out the control and accountability regime for Crown corporations. Finally, BDC's by-laws prescribe the rules that govern the functioning of the Bank.

We look to Treasury Board of Canada Secretariat for guidance on public sector governance practices. BDC meets or exceeds all of the governance standards recommended by Treasury Board. We also benchmark ourselves against corporate governance and risk management best practices in the financial services sector, and update our corporate governance framework as appropriate.

Board governance

Our board sets BDC's strategic direction and holds senior management accountable for achieving BDC's statutory mandate while respecting its complementary role. Our board mandate, Board Code of Conduct and board committees' terms of reference define the board's corporate governance framework and its stewardship role, decision-making authority and accountability. The board is composed of dedicated, hard-working directors whose expertise, integrity and commitment to ethical business conduct transform principles into actions that build trust among our stakeholders. Together, our directors have the required mix of skills and experience needed for their stewardship role. They bring a diverse range of perspectives that helps us respond to our clients' goals and aspirations.

All board committees conduct in-depth reviews in their areas of responsibility and provide regular reports to the board. The board and its committees regularly assess their effectiveness and perform peer-to-peer evaluations. Except for the President and CEO, all board members are independent of management. The segregated roles and responsibilities of the Chairperson of the Board and the President and CEO reflect current best practices. Board members work very closely with senior management. They also hold regular *in camera* sessions in the absence of management and with heads of the risk oversight functions.

Risk governance

BDC's core challenge is to promote its role as a development bank that supports entrepreneurs—an inherently risky activity—while prudently managing risk and remaining financially sustainable. The board collaborates closely with management to instill and monitor an appropriate risk culture. During the year, the board and management completed a thorough review of BDC's risk governance framework to align BDC's risk governance with best practices. This process started with an enhancement of the board mandate and the committees' terms of reference. The review clarified the primary role of the Board Risk Committee, which is focused on identifying, assessing and managing risk. The delegation of authority policy was revised to reorient the approval levels toward risk criteria. We continue to enhance our enterprise risk management to reflect the three lines of defence model and the evolution of our risk appetite statement.

Transparency and ethics

BDC's directors, executives and employees are committed to the highest standards of business ethics and corporate governance; our operations and activities are characterized by an open and ethical governance culture. The Board Code of Conduct and the Employee Code of Conduct, Ethics and Values provide ethical guidance at all levels of our organization. They are reinforced by policies on personal trading, disclosure of wrongdoing, anti-fraud, anti-money laundering and anti-terrorism financing. Robust processes are in place to manage conflicts of interest.

Every year, directors and employees declare that they have read, understood and complied with our codes of conduct.

Government oversight

Every year, Parliament receives an update on BDC's five-year Corporate Plan, which has been approved by the board, the Treasury Board of Canada Secretariat and the Minister of Innovation, Science and Economic Development. Parliament also receives BDC's Annual Report, which contains financial statements that have been audited by both the Auditor General of Canada and an external audit firm.

The Auditor General of Canada does a special examination of BDC at least once every 10 years that goes beyond strictly financial issues to examine systems and practices related to economy, efficiency and effectiveness. BDC's next special examination is scheduled to start in 2017. At 10-year intervals, the Minister reviews the provisions and operation of the BDC Act, in consultation with the Minister of Finance. The most recent legislative review was completed in 2014.

Key Governance Highlights

During the year, the board's main focus was on providing insight on risk governance, strategy, and the recruitment process for a new President and CEO.

The board oversaw the implementation of strategic initiatives such as BDC Advantage, which piloted mentoring and advisory services for high-impact firms, and a new tool, which will be launched in the fall, to help Canadian entrepreneurs improve their skills. The board continued to monitor new trends in financing markets and the successful deployment of the Venture Capital Action Plan. It also promoted initiatives to enhance awareness of BDC's brand, reach more clients across Canada and leverage the changes to the BDC Act in 2014 to help clients compete internationally. As well, the corporate compliance function continued to implement its regulatory compliance framework in line with best practices.

On June 19, 2015, we said goodbye to the President and CEO of the Bank, Jean-René Halde, who retired after 10 years of dedicated and effective service in support of entrepreneurship in Canada. With various events, BDC acknowledged his contribution and the high esteem in which he was held by employees, the board and the shareholder. The Chairperson of the Board and several directors contributed to the Privy Council Office's process to recruit a new President and CEO. On August 10, 2015, the board welcomed a new President and CEO, Michael Denham. He brings more than 20 years of management experience, having led large organizations with a pan-Canadian presence. He served as President and CEO of Aqua Terra Corporation and held senior management roles at Accenture, CGI and Bombardier.

Mr. Denham made his priorities known: to develop innovative technological solutions to improve BDC's service delivery, enhance clients' ease of interaction with BDC and expedite loan approvals; to increase the number of BDC business centres across Canada so more account managers are closer to more clients; to stimulate innovation and encourage entrepreneurs to invest in technology; and to help more companies export and grow internationally.

Lastly, the board worked with the Minister of Innovation, Science and Economic Development to recommend potential board members. Nancy M. Laird joined the board on April 30, 2015, and became a member of the Board Investment Committee and Audit Committee, bringing extensive experience in the energy and technology sectors. Claude Mc Master joined the board on March 26, 2015, and became a member of the Board Investment Committee and Audit Committee, bringing more than 20 years of entrepreneurial experience, primarily in the technology and life sciences sectors. These new board members replaced Sue Fawcett and Rick Perkins, who had completed two terms on the BDC board.

Board Mandate

The board is responsible for the following:

- approving BDC's strategic direction and Corporate Plan to meet its public policy mandate
- setting performance targets and monitoring progress
- approving the risk appetite framework, which includes the risk appetite statement, to ensure that BDC is identifying and managing its risks properly
- ensuring the highest standards of corporate governance
- establishing compensation policies and ensuring that they align with BDC's risk appetite
- reviewing and approving management's succession plan, which includes approving appointments to the senior management team
- setting the President and CEO's performance objectives and evaluating his performance
- reviewing BDC's internal controls and management information systems
- overseeing communications and public disclosure
- overseeing BDC's pension plans, and establishing its funding policies and practices
- approving financing and investment activities beyond management's authority, and overseeing financial and consulting services
- ensuring the complementarity of BDC's market approach and activities

Committees

Audit Committee

Chairperson
Michael Calyniuk

Number of meetings
6

Members
Eric Boyko
Edward Gordon
Brian Hayward
Claude Mc Master

This committee promotes an overall corporate culture of quality financial reporting and ethical behaviour. Its main duties are as follows:

- review and advise the board on annual and quarterly financial statements before disclosure in accordance with accounting principles
- review the adequacy and effectiveness of the internal control framework, and, in particular, controls related to major accounting and financial reporting systems
- recommend the appointment and removal of, and succession planning for, the Chief Audit Executive
- oversee the activities and assess the performance of the Chief Audit Executive and the internal audit function
- give advice and recommendations about the appointments and terms of auditors and special examiners
- review the scope and terms of engagement of auditors and special examiners who report directly to the committee and are accountable to the board
- oversee the activities and assess the performance of external auditors
- oversee the activities of the corporate compliance function, including regulatory compliance, and assess its performance
- oversee capital management and capital adequacy
- oversee BDC's standards of integrity and conduct, including the process for disclosing wrongdoing and reports from the Ombudsman
- review directors' and officers' expenses

Board Risk Committee

Chairperson	Members
Robert H. Pitfield	Michael Calyniuk Samuel L. Duboc Shahir Guindi Brian Hayward
Number of meetings 26	

This committee's main duties are as follows:

- review and recommend to the board all strategies related to BDC's material financial offerings
- identify and manage BDC's principal financial, business and operational risks, and oversee the Bank's risk culture
- approve, monitor compliance with and assess the effectiveness of BDC's risk appetite statement, and the models and limits contained in it
- oversee the work of the Chief Risk Officer and the risk oversight functions
- regularly review the enterprise risk management policy and other policies concerning key risks, such as credit, market, strategic, reputational, operational and other principal risks
- review reports and indicators related to BDC's risk profile regarding enterprise risk management, portfolio risk management, capital management and adequacy, treasury operations risks, and information technology security, including emerging risks and exceptions to the risk appetite statement and policies
- approve the framework for assessing and approving new business activities, products and services, except those related to venture capital
- periodically review the business continuity plan
- approve loans and transactions that exceed the delegated authorities of senior management
- review policies and guidelines related to the delegation of authority for all financial products, except venture capital products

Governance and Nominating Committee

Chairperson	Members
Samuel L. Duboc	Michael Calyniuk Prashant Pathak Robert H. Pitfield Mary-Alice Vuicic
Number of meetings 7	

This committee helps the board fulfill its corporate governance oversight responsibilities. Its main duties are as follows:

- continually review best practices and regulations related to governance in Canada and, if necessary, recommend changes to BDC's approach
- annually review BDC's corporate governance policies, including the Board Code of Conduct, and the Employee Code of Conduct, Ethics and Values
- annually assess the board's compliance with these policies
- monitor procedures established to detect and manage potential conflicts of interest
- regularly review the mandates, structures and memberships of the board and its committees
- develop selection criteria for the President and CEO position
- recommend to the board, for the consideration of the Minister of Innovation, Science and Economic Development, the reappointment of the Chairperson, the President and CEO, and members
- retain a search firm to identify candidates for the positions of the Chairperson, the President and CEO, and members
- review and annually approve the list of skills directors require
- develop processes to assess the performance of the board, its committees and its members
- ensure that comprehensive director orientation and continuous training programs are in place

Human Resources Committee

Chairperson
Mary-Alice Vuicic

Number of meetings
8

Members
Shahir Guindi
Nancy M. Laird
Prashant Pathak
Robert H. Pitfield
Rosemary Zigrossi

On June 10, 2015, the Pension Funds Investment Committee was dissolved and its activities were transferred to the Human Resources Committee.

This committee's main duties are as follows:

- assess the "tone at the top" established by senior management regarding integrity and ethics, and review policies for managing personnel effectively
- recommend the human resources strategy—including key human resources objectives, plans and workforce requirements—to the board
- review—and, if appropriate, recommend to the board for approval—any major organizational structure changes, including the CEO's and other committees' recommendations for appointments of senior management committee members, the Chief Audit Executive, the Chief Risk Officer and the Ombudsman
- assess the CEO's objectives, performance, evaluation and benefits
- review compensation for senior executives
- review and approve the design of compensation policies, programs and plans
- approve performance measures and metrics
- receive and examine actuarial evaluation reports and financial statements related to BDC pension plans, as well as recommend funding contributions
- ensure there is a valid succession plan in place for all critical positions, including the Chief Risk Officer and Chief Audit Executive
- assess human resources risks, such as those related to employee attraction, retention, engagement and performance
- recommend to the board funding and design changes to the pension plans
- monitor the funded status of the plans
- recommend the funds' financial statements to the board
- advise the board on investment strategies and the asset mix

Board Investment Committee

Chairperson
Prashant Pathak

Number of meetings
27

Members
Eric Boyko
Edward Gordon
Nancy M. Laird
Claude Mc Master
Rosemary Zigrossi

This committee's duties are as follows:

- regularly review the investment policy, and other policies and processes for investment activities
- review and assess all risks associated with investments and the management thereof
- review all strategies, guardrails and capital allocations for all material investment activities, including venture capital and private equity
- approve the business plan of the three venture capital internal funds, as well as investment strategies, the capital allocation and guardrails
- review strategic initiatives aimed at improving the venture capital ecosystem
- review and recommend delegations of authority
- monitor portfolio performance
- approve investments that exceed the delegated authorities of senior management

To consult board committees mandates, please refer to www.bdc.ca.

Board and Board Committee Meetings and Attendance

	Board			Audit		BRC/BCRC[12]		Governance/ Nominating		Human Resources		Pension Funds Investment[13]		BIC		Committee meetings		
Directors	Attendance	Total	%	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	%
Samuel L. Duboc[1]	10	10	100%	0	0	18	26	7	7	0	0	0	0	0	0	25	33	76%
Eric Boyko[2]	5	10	50%	4	6	14	23	0	0	0	0	0	0	18	27	36	56	64%
Paul Buron[3]	1	1	100%															100%
Michael Calyniuk[4]	10	10	100%	6	6	26	26	1	1	0	0	0	0	0	0	33	33	100%
Michael Denham[5]	6	6	100%															100%
Sue Fawcett[6]	1	1	100%	1	1	0	0	0	0	0	0	1	1	2	3	4	5	80%
Edward Gordon[7]	2	10	20%	2	6	0	0	0	0	0	0	1	1	0	22	3	29	10%
Shahir Guindi	9	10	90%	0	0	21	26	0	0	7	8	0	0	0	0	28	34	82%
Jean-René Halde[8]	2	2	100%	0	0	4	7	0	0	0	0	0	0	3	5	7	12	58%
Brian Hayward[4]	10	10	100%	6	6	18	26	6	6	0	0	0	0	0	0	30	38	79%
Nancy M. Laird[10]	8	9	89%	0	0	0	0	0	0	4	6	0	0	18	22	22	28	79%
Claude Mc Master[9]	8	10	80%	4	4	0	0	0	0	0	0	0	0	19	22	23	26	88%
Prashant Pathak	10	10	100%	0	0	0	0	6	7	7	8	0	0	23	27	36	42	86%
Robert H. Pitfield[11]	9	10	90%	0	0	23	26	5	5	7	8	0	0	0	0	35	39	90%
Mary-Alice Vuicic	9	10	90%	0	0	0	0	6	7	7	8	0	0	0	0	13	15	87%
Rosemary Zigrossi	10	10	100%	0	0	0	0	0	0	6	6	1	1	26	27	33	34	97%

(1) The Chairperson of the Board, Mr. Samuel L. Duboc, is a member of the Board Risk Committee and Chairperson of the Governance/ Nominating Committee. As Chairperson, he frequently attended meetings of other Board committees during the year.

(2) Mr. Eric Boyko stepped down as a member of the Board Risk Committee (formerly known as Board Credit and Risk Committee) on February 10, 2016.

(3) Mr. Paul Buron was appointed to act as President and CEO effective June 19, 2015, until the position was filled by Mr. Michael Denham on August 10, 2015.

(4) Mr. Michael Calyniuk was appointed Chairperson of the Audit Committee as well as a member of the Governance/Nominating Committee, on February 10, 2016, replacing Mr. Brian Hayward, who remained a member of the Audit Committee.

(5) Mr. Michael Denham was appointed President and CEO and joined the Board of Directors, effective August 10, 2015. As President and CEO, he is not a member of any committee; however he attends meetings regularly.

(6) Ms. Sue Fawcett reached the end of her term and was replaced by Ms. Nancy M. Laird on April 30, 2015.

(7) Mr. Edward Gordon was appointed to the Board Investment Committee (BIC) on June 10, 2015. Mr. Gordon's absence was due to illness.

(8) Mr. Jean-René Halde retired from BDC as President and CEO on June 19, 2015.

(9) Mr. Claude Mc Master was appointed to the Board of Directors on March 26, 2015, replacing Mr. Rick Perkins, and was appointed to the Board Investment Committee as well as the Audit Committee on June 10, 2015.

(10) Ms. Nancy M. Laird was appointed to the Board of Directors on April 30, 2015, replacing Ms. Sue Fawcett, and was appointed to the Board Investment Committee as well as the Human Resources Committee on June 10, 2015.

(11) Mr. Robert H. Pitfield was appointed to the Governance/Nominating Committee on June 10, 2015.

(12) On February 10, 2016, the Board of Directors approved the committee name change from Board Credit and Risk Committee to Board Risk Committee.

(13) On June 10, 2015, the Pension Funds Investment Committee merged with the Human Resources Committee, of which Ms. Mary-Alice Vuicic remained the Chairperson.

Board of Directors

(March 31, 2016)

Samuel L. Duboc
Chairperson
of the Board
BDC

Partner EdgeStone
Toronto, Ontario

Michael Denham
President and
Chief Executive Officer
BDC
Montreal, Quebec

Eric Boyko
President and CEO
Stingray Digital Inc.
Montreal, Quebec

Michael Calyniuk
President
MEC Dynamics Inc.
Vancouver,
British Columbia

Shahir Guindi
Managing Partner
Osler, Hoskin &
Harcourt LLP
Montreal, Quebec

Brian Hayward
President
Aldare Resources
Winnipeg, Manitoba

Nancy M. Laird
Corporate Director
Calgary, Alberta

Claude Mc Master
President and CEO
D-BOX Technologies
Inc.
Longueuil, Quebec

Prashant Pathak
President and
Chief Executive Officer
Ekagrata Inc.
Toronto, Ontario

Managing Partner
ReichmannHauer
Capital Partners
Toronto, Ontario

Robert H. Pitfield
Executive Chairman
of the Board
TravelEdge Group
Toronto, Ontario

Mary-Alice Vuicic
Chief Human Resources
Officer
Victoria's Secret
(L Brands)
Columbus, Ohio

Rosemary Zigrossi
President and CEO
Odaamis Inc.
Toronto, Ontario

In Memoriam
**Edward (Ted)
Gordon**
Financial Security
Advisor
Freedom 55 Financial
Ottawa, Ontario

To consult BDC's directors biographies, please refer to www.bdc.ca.

Senior Management Team

(March 31, 2016)

Michael Denham
President and
Chief Executive Officer

Paul Buron
Executive
Vice President and
Chief Financial
and Risk Officer

Pierre Dubreuil
Executive
Vice President
Financing

Jérôme Nycz
Executive
Vice President
BDC Capital

Michael R. McAdoo
Executive
Vice President
BDC Advantage

Chantal Belzile
Senior Vice President
Chief Information and
Innovation Officer

Michel Bergeron
Senior Vice President
Marketing and
Public Affairs

Mary Karamanos
Senior Vice President
Human Resources

Louise Paradis
Senior Vice President
Legal Affairs and
Corporate Secretary

To consult BDC's Senior Management Team members biographies, please refer to www.bdc.ca.

Five-Year Operational and Financial Summary

for the years ended March 31 (in thousands of Canadian dollars)

Operational Statistics	2016	2015	2014	2013	2012
Loans					
Committed to clients[1]					
as at March 31					
Amount	**23,013,157**	21,256,479	19,723,747	18,341,604	16,956,675
Number of clients	**34,428**	32,213	29,929	28,056	27,582
Acceptances					
Amount	**4,800,062**	4,711,675	4,102,065	4,110,703	3,623,075
Number	**14,434**	12,012	10,976	9,195	6,926
Subordinate Financing					
(includes both BDC and Caisse portion)					
Committed to clients[1]					
as at March 31					
Amount	**816,452**	706,866	636,277	583,816	498,670
Number of clients	**537**	471	427	400	385
Acceptances					
Amount	**259,060**	231,514	186,606	189,757	163,775
Number	**174**	177	126	113	137
Venture Capital					
Committed to investees[1]					
as at March 31					
Amount	**1,178,321**	1,026,967	861,881	821,882	735,454
Number of clients	**235**	209	183	149	103
Authorizations					
Amount	**253,086**	185,421	154,754	145,267	126,751
Number	**130**	101	94	87	45
Asset-backed securities					
Amount committed to clients[1]	**805,000**	630,000	530,000	907,048	1,110,024
as at March 31					
Amount authorized (cancelled) and renewed	**575,000**	100,000	(175,000)[2]	265,000	290,000
Venture Capital Action Plan					
Commited to investees[1]					
as at March 31	**390,159**	324,746	210,000	–	–
Amount	**8**	8	5	–	–
Number of clients					
Authorizations					
Amount	**64,976**	114,845	210,000	–	–
Number	–	3	5	–	–
BDC					
Total committed to clients and investees	26,203,089	23,945,058	21,961,905	20,654,350	19,300,823

(1) Amount committed to clients and/or investees represents guarantees as well as portfolio outstanding and amount undisbursed, at cost.

(2) Amount cancelled includes $25,000 of authorizations and $200,000 of cancellations.

(in thousands of Canadian dollars)

Financial Information	2016	2015	2014	2013	2012
Net Income and Comprehensive Income – by Business Segments[1] for the years ended March 31					
Financing	**441,794**	453,428	433,833	433,124	504,736
Growth & Transition Capital	**53,697**	38,525	23,305	34,685	36,212
Venture Capital	**67,440**	23,268	(12,075)	(8,559)	(42,640)
BDC Advantage	**(31,569)**	(24,245)	(16,855)	(12,450)	(11,020)
Securitization	**3,085**	3,965	5,822	11,355	46,159
Venture Capital Action Plan	**3,284**	(4,251)	(1,418)	-	-
Net income	**537,731**	490,690	432,612	458,155	533,447
Net income attributable to:					
BDC's shareholder	**535,448**	490,516	425,968	454,661	520,335
Non-controlling interests	**2,283**	174	6,644	3,494	13,112
Net income	**537,731**	490,690	432,612	458,155	533,447
Other comprehensive income (loss)[2]	**(43,653)**	(30,247)	49,633	(24,906)	(152,486)
Total comprehensive income	**494,078**	460,443	482,245	433,249	380,961
Total comprehensive income attributable to:					
BDC's shareholder	**491,795**	460,269	475,601	429,755	367,849
Non-controlling interests	**2,283**	174	6,644	3,494	13,112
Total comprehensive income	**494,078**	460,443	482,245	433,249	380,961
Financial Position Information as at March 31					
Asset-backed securities	**509,758**	407,731	336,477	437,453	763,200
Loans, net of allowance for credit losses	**19,717,706**	18,414,044	17,241,064	15,871,635	14,739,271
Subordinate financing investments	**751,404**	642,810	576,677	557,840	457,369
Venture capital investments	**928,000**	709,639	495,096	456,708	358,951
Venture Capital Action Plan investments	**137,668**	47,643	5,169	-	-
Total assets	**22,905,903**	21,129,017	19,569,957	18,183,905	17,219,882
Total liabilities	**17,556,384**	16,349,897	15,179,908	14,228,230	13,594,621
Total equity attributable to:					
BDC's shareholder	**5,323,473**	4,744,566	4,338,910	3,872,902	3,509,980
Non-controlling interests	**26,046**	34,554	51,139	82,773	115,281
Total equity	**5,349,519**	4,779,120	4,390,049	3,955,675	3,625,261

(1) For detailed information on fiscal 2016 and fiscal 2015 segmented information, please also refer to Note 25—*Segmented Information* to the Consolidated Financial Statements.

(2) For detailed information on fiscal 2016 and fiscal 2015 other comprehensive income, please refer to the Consolidated Statement of Comprehensive Income (page 54).

Glossary

Acceptance – The point at which the client has agreed to the authorized financing terms and conditions that BDC has offered him or her. Client acceptance follows BDC authorization. (Information on acceptances disclosed in this report is net of cancellations or reductions after client acceptance.)

Allowance for credit losses – Represents an amount that management deems adequate to fully provide for impairment in the existing loan portfolio. Allowance for credit losses can be individual or collective, and is recorded on the financial position as a deduction from loans.

Asset-backed securities – Securities created through the securitization of a pool of assets. For example, BDC's securitization contains Canadian AAA-rated term securities backed by loans and leases on vehicles and equipment, as well as dealer floor plan loans.

Authorization – The point at which BDC has completed its due diligence and approved the financing request or venture capital investment. Authorization precedes acceptance. (Information on authorizations disclosed in this report is net of cancellations or reductions after BDC authorization.)

Collective allowance – Established by management to recognize credit losses in the existing performing loan portfolio that have occurred as at the financial position date but have not yet been specifically identified on an individual loan basis.

Consulting revenue – Fees from services provided by BDC's national network of consultants to assess, plan and implement management solutions.

Cross-currency swaps – Agreements to exchange payments in different currencies over pre-determined periods of time.

Debt-to-equity ratio – A measure to ensure BDC operates within its statutory limitations on debts, calculated as the aggregate of borrowings and contingent liabilities over the equity attributable to BDC's shareholder. It also includes preferred shares classified as liabilities, and excludes accumulated other comprehensive income or loss. The statutory limit of BDC's debt-to-equity ratio is 12:1.

Derivative financial instruments – Contracts whose value is "derived" from movements in interest or foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

Direct investments – Investments BDC makes directly in investee companies.

Fair value – The price that knowledgeable, willing parties—under no compulsion to act—would agree to in an arm's-length transaction. Fair value represents management's best estimate of the net worth of an investment at the financial position date and may not reflect the ultimate realizable value upon disposal of the investment.

Financing efficiency ratio – A measure of the efficiency with which BDC incurs expenses to generate income on its financing operations. It is calculated as operating and administrative expenses, as a percentage of net interest and other income. Other income includes fee income and net realized gains or losses on other financial instruments. A lower ratio indicates improved efficiency.

Hedging – A risk management technique used to insulate financial results from market, interest rate or foreign currency exchange risk (exposure) arising from normal banking operations.

Impaired loans – Loans are deemed impaired when the interest or principal of the loan is in arrears for three consecutive months or more or if there is reason to believe that a portion of the principal or interest cannot be collected.

Individual allowance – An allowance that management establishes to recognize credit losses in the existing loan portfolios that have occurred and are identified on an individual loan basis, as at the financial position date.

Interest rate swaps – Agreements to exchange streams of interest payments—typically, one at a floating rate and the other at a fixed rate—over a specified period, based on notional principal amounts.

Master netting agreement – A standard bilateral contract that enables trading counterparties to agree to net collateral requirements and, in a close-out situation, settlement amounts related to underlying master trading contracts for sales and purchases of financial instruments. The master netting agreement offsets positive balances of one transaction with negative balances of another.

Net change in unrealized appreciation or depreciation of investments – Amount included in income resulting from movements in the fair value of investments for the period.

Net interest income – The difference between interest revenues generated by interest-bearing portfolios, as well as cash equivalents and securities, and the cost of borrowings to fund these assets.

Net realized gains or losses on investments – Gains realized, net of realized capital losses, upon sale or write-off of investments, excluding the net change in unrealized appreciation or depreciation of venture capital and subordinate financing investments.

Net realized gains or losses on other financial instruments – Amounts that are related to structured notes and their associated derivatives. Realized gains or losses occur when financial instruments are repurchased prior to maturity at a price higher or lower than the original purchase price.

Net unrealized gains or losses on other financial instruments – Amounts that are related to structured notes and their associated derivatives. These represent the amounts included in income resulting from movements in the fair value of financial instruments for the period.

Non-controlling interest – The equity in a subsidiary not attributable, directly or indirectly, to BDC.

Performing portfolio – Loans for which there is reasonable assurance that BDC can collect the principal and interest on time.

Provision for credit losses – A charge to income that represents an amount that management deems adequate to fully provide for impairment in the existing loan portfolios, given the composition of the loan portfolios, the probability of default on the loans, the economic environment and the allowance for credit losses already established.

Return on common equity (ROE) – Net income, less preferred share dividends, expressed as a percentage of average common equity. It excludes other comprehensive income or loss on post-employment benefits, accumulated other comprehensive income or loss, and non-controlling interest.

Start-up – A business that is being established for the first time. Also included in this category are existing enterprises that have not yet registered 12 consecutive months of sales.

Subordinate financing – A hybrid instrument that brings together some features of both debt financing and equity financing.

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